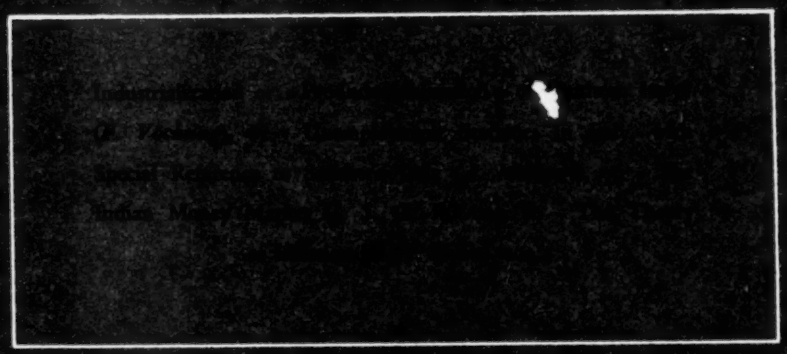
BANCA NAZIONALE DEL LAVORO
QUARTERLY REVIEW



ROME

BANCA NAZIONALE DEL LAVORO

HEAD OFFICE: ROME

VIA VITTORIO VENETO, 119

Condensed Statement of Condition, June 30, 1952

(Lire)

ASSETS		LIABILITIES	
Cash, Balances with Banks & Money at call	103,605,725,416	Capital	1,150,000,000
Investments: Govt. & semi-Govt. Securities & Treasury Bills	49,033,042,835	Ordinary Reserve Fund	2,710,000,000
Investments: Other Securities	4,149,510,132		3,860,000,000
Contango, Advances on Securities & Loans	173,983,763,986	Deposits & Current Accounts (Including Balance of Profit & Loss)	353,011,183,678
Bills receivable	80,488,887,921	Cheques in Circulation (*assegni circolari*)	13,218,687,340
Sundry Accounts	2,255,804,371	Bills for Collection	15,723,843,305
Premises, Furnitures & Fixtures	1	Guarantees & Acceptances for A/C of Customers	56,192,450,766
Customers' Liability for Guarantees & Acceptances	56,192,450,766	Sundry Accounts	18,498,459,000
		Staff individual Retirement Accounts	7,379,796,426
		Unearned Discount & other unearned Income	1,824,764,913
L.	469,709,185,428		469,709,185,428
Securities deposited by Third Parties	86,233,252,757	Depositors of Securities	86,233,252,757
Special guaranteed Accounts	11,652,562	Accounts guaranteeing special Accounts	11,652,562
Staff Assistance & Retirement Fund-Securities deposited by the Bank as Guarantee	7,339,746,387	Bank's Securities guaranteeing Staff Assistance & Retirement Fund	7,339,746,387
	563,293,837,134		563,293,837,134

AUTONOMOUS SECTIONS FOR SPECIAL CREDITS

SECTION FOR CREDIT TO MEDIUM AND MINOR INDUSTRIES

Capital, Reserves and Government Guarantee Fund L. 2,525,675,500

SECTION FOR HOTEL AND TOURIST CREDIT

Aggregate Capital and Reserves L. 465,836,919

SECTION FOR CO-OPERATIVE CREDIT

Capital and Reserves L. 2,532,966,932 - Government Guarantee L. 2,000,000,000

SECTION FOR MORTGAGE CREDIT

Aggregate Capital and Reserves L. 574,007,148

SECTION FOR CINEMA CREDIT

Aggregate Capital and Reserves L. 588,759,317

BANCA NAZIONALE DEL LAVORO QUARTERLY REVIEW

Vol. V, No. 21, April-June 1952

SUMMARY

The « Southern Question », *i.e.* the problem of the economic backwardness of South Italy and the Islands as contrasted with the development of North and Central Italy, has been one of the gravest features of Italian life ever since the beginning of this century. Since then, as a result of two wars and of the policies followed during the interval between them, the disparity between North and South has been further accentuated up to a point now entailing almost dramatic implications for the economic and political development of the country as a whole.

The terms of the problem have already been stated in No. 8 of this Review (January 1949) by Prof. Alessandro Molinari who suggested for the South a programme based essentially on industrialization and the establishment of a special Public Agency.

As a matter of fact, the several measures taken by the Government in the post-war years in favour of the South have culminated in setting up the so-called « Southern Fund » (*Cassa del Mezzogiorno*) under the Act of August 10, 1950, No. 646. The Fund was entrusted with the task of carrying out a programme of special public works at a total cost of 1,000 billion lire ($ 1.6 billion), spread out over a period of ten years, from 1951 to 1960. The outlay is to be allocated as follows: land reclamation and irrigation works, 44%; works for the rehabilitation of mountain areas, 5%; works for implementing the agrarian reform, 28%; aqueducts, 11%; road building, 9%; works for promoting the tourist trade, 3%. Under the « Act on Civil Investments » of 29-7-1952, the appropriation for the Fund was raised by a further 280 billion lire ($ 448 million) and its life extended for two years, until 1962. Of the additional 280 billion lire, 175 ($ 280 million) are assigned to complete the plans for rehabilitating mountain water basins, while the remaining 105 billion ($ 168 million) will be used for financing the reorganisation of Southern railway system and for building new aqueducts and highways.

In view of its specific tasks, the programme of the Southern Fund has been described as one of pre-industrialization; and, as such, has given rise to reservations and doubts in all those who consider that the southern problem can be successfully solved only by an all-embracing — and extremely costly — modernisation plan, centered on industrialization. This is the position taken by Prof. Friedrich Vöchting, professor of Political Economy at the University of Basel, and clearly reasserted in his article « *Industrialization or "pre-industrialization" of Southern Italy?* » — a position which may be considered as a direct derivation of his important work « *Die Italienische Südfrage. Entstehung und Problematik eines wirtschaftlichen Notstandsgebietes* », published at Berlin in 1951. This approach, if it is based on the one hand on a « radical vision » of what is needed to assure the rehabilitation of South Italy, seems, on the other hand, to be tinged by a pessimistic outlook which leads the author to suggest recourse to the extreme remedy advocated by some students of the southern question, *i.e.* regional protective tariffs.

By his article Prof. Vöchting thus reopens an old controversy, criticising in severe terms the hopes now entertained in Italian official circles. But, whatever the final judgment may be, it is only fair to pay a tribute of respect to Prof. Vöchting's stimulating analysis, even though certain pungent remarks and discouraging negations — accompanied by proposals no less costly than radical — may be questioned and opposed, with equal sincerity, by other students of the southern problems, who view with favour the line of action adopted by the Italian Government.

* * *

Reliable and detailed statistics on the problem of unemployment in Italy are, as is known, lacking both in the case of « registered » unemployment and in that of the « unregistered » (« unoccupied »; « under-occupied »; « hidden » and « latent » unemployment).

In his article on « *Unemployment Statistics in Italy, with Special Reference to Southern Italy* », prof. Alessandro Molinari — making use of some recent investigations and while awaiting the results of a Parliamentary enquiry into unemployment now undertaken — examines, on the one hand, the value and significance of the available statistical data; and, on the other, tries to fill the gaps existing in the vast and rather undefined field of « unregistered » unemployment, where current definitions and estimates are uncertain and discordant. The conclusions set forth afford an up-to-date picture of one of the most serious aspects of the « Southern Question », discussed once more in critical terms by Prof. Vöchting in this issue.

* * *

Prof. J. S. G. Wilson in an article on the « *The Indian Money Market* » presents a picture of banking organisation in India where commercial banks of the Western type (the so-called « Exchange Banks » and « Indian Joint Stock Banks », forming the body of the « central money market ») are operating side by side with institutions which derive from indigenous banking practice with a tradition going back many hundreds of years.

The author outlines the structure and activity of the two groups and their respective fields of action; emphasises the crucial problem of the links between the institutions of the central money market and the credit needs of both the rural village and the smaller artizans in the towns; and refers to the efforts now being made to set up a more unified system. Indeed, in his opinion, the development of the Indian money market and its degree of integration are two closely related problems. In this framework, special attention is devoted to an examination of the financial organisation of the two main commercial centres, Bombay and Calcutta.

* * *

« *The Theory of Inflation* » by F. H. Hahn, is a review article of the recently published book by Bent Hansen (*A Study in the Theory of Inflation*, Allen & Unwin, 1951).

The Author considers first the question of a definition of inflation and makes clear his general approach. In the second section he discusses certain specific situations and the effect of different government policies on them. In the third section problems raised by a dynamic analysis of inflation are examined, while the last section closes with some general reflections on Dr. Hansen's work.

The Banca Nazionale del Lavoro assumes no responsibility for opinions or facts stated by authors whose contributions are published in the present Review.

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Industrialization or « Pre-Industrialization » of Southern Italy?

by

FRIEDRICH VÖCHTING

1. *Present State of the « Southern Question »*.

No accurate study of the special and economic difficulties which afflict the South of Italy can omit to take into account the following two factors: the scarcity of a non-agricultural class of consumers and the almost total absence of sources of income not related to agriculture.

The South of Italy has remained somehow nailed down to that stage of economic development which has been defined by Friedrich List as « *Agrikulturstaat* », that is to say to a situation which may be bearable and even natural as long as a certain balance is maintained amongst the various sections of the social and economic structure. This was the main feature common to the majority of the European nations until the first half of last century.

But as soon as this relative balance is upset by the impact of a dynamic phenomenon such as an excessive increase of population, it becomes necessary to adopt a more advanced social and economic system which will increase total production and employment. Agricultural activity must in such a case be integrated with industrial activity if we wish to avoid an ever increasing lack of balance between the supply of and the demand for labour, with consequential social struggles and poverty.

When Italy became a unified nation the South had achieved a degree of industrialization which was fairly adequate, if we bear in mind the historical, social and economic circumstances of the time. In fact, as regards variety, the industries of the South could equal those of North Italy. But southern industry had until then enjoyed a substantial protection under the customs policy in operation; when it was faced with the competition of the northern industries (which had been toughened under systems of free trade) it was seriously affected and, so far as it succeeded in surviving, it could only do so by severely cutting wages. On the other hand, shortage of working and permanent capital — which had been heightened by investments in mortmain property liquidated for the benefit of the Revenue — prevented the southern industrialists (especially in the case of small concerns and artisan industries) from re-organizing their equipment so as to reduce costs and put themselves in a position to compete with their rivals in the North.

In accordance with the well-known principles that govern the localization of industry, two forces began to operate, one of attraction and the other of repulsion; attraction towards the larger centres, whose social and industrial development was made evident by the prosperity of the local concerns; repulsion from the poorer centres, which were unproductive and socially undeveloped. The Liberal Government had neither the capacity nor the inclination to oppose such a movement; it deemed it sufficient to resort to the rather artificial expedient of creating a few industrial zones to which it tried to attract, by means of a preferential taxation and customs regime, new industries or branches of industries situated in other parts of Italy.

The indifferent results of this experiment were not sufficient to re-establish the previous balance, and the first world war, by encouraging the unrestrained expansion of some northern industrial centres already well-established, had the inevitable effect not only of ensuring but of increasing the industrial preponderance

of the North. An enquiry held in 1927 revealed that the southern mainland — whose share of the population was, according to the 1921 census, 23.6% — provided only 7.4% of the labour employed in machine-operated industries (1).

The Fascist regime, which had rural origins and inclinations, resentful of the calls for Government aid made by some large concerns in the iron and steel industry — which was proving very costly to the community —, did not seem to realise, at least in the first decade of its existence, the full gravity of the situation. Later, when it might have become aware of it, it was compelled, first by the world crisis and then by the economic sanctions imposed by the League of Nations, not only to abstain from any further attempt at re-organizing the existing system but to accept it fully, and even to strengthen it, in pursuance of its policy of autarky, intended to realize in the shortest time possible the highest possible degree of economic independence.

The Government's hand was forced, indeed, by the fact that northern industry was already more highly mechanized and so could proceed more readily and at less cost along the path of still greater mechanization than the South, while in addition, re-armament necessarily depended on the heavy industries situated in the North. This in turn could not fail to give rise to an ever increasing lack of balance; the share contributed by Southern Italy to the horse-power of the whole country continued to decrease, from 19.1% (1927) to 13.4% (1938) (2).

The same tendency prevailed on a yet larger scale during the last world war, which therefore aggravated the geographical dislocation of Italian industry. Moreover, the difference between North and South became at least temporarily even more marked owing to the uneven incidence of war damage. The destruction suffered by industry in the South of Italy is reckoned to have been 35%, as compared with 12.4% representing the damage suffered by industries in the Valley of the Po (3). The difference in the damage to hydro-electric plants was even more marked; in the South of Italy less than one-half of them were left capable of operation, whilst in the North 90% were undamaged (4). The shortage of electric power in the South caused in its turn a serious drop in production and income (5); it had moreover the effect of preventing the South from reaping the advantages offered by the favourable commercial situation that developed in the years after the war, in which the industries in Northern Italy were able to participate to a larger extent. Nor was the compensation paid by the Government in proportion to the territorial importance of the damage (6).

Italy has thus reached a stage of acute tension between South and North, which became strikingly evident at the end of the war, when the period of economic quiescence ended, and added fresh energy to the forces engaged in upsetting even further a structure which was already dislocated. To remedy this situation expenditure and hardships will have to be incurred considerably greater than that which would have been called for not long ago.

2. *The Alternative of the Ten Year Plan.*

In August 1950, while the steps to be taken for the industrialization of the South were being discussed, the Government announced a ten year plan of public works intended to improve the Southern conditions in various ways. The execution of the plan was entrusted to the well-known « Cassa per il Mezzogiorno » (« *Southern Fund* ») (7).

The planned works — land reclamation, improvement of mountainous land, irrigation plants, drains and aqueducts, highways, land reform (Heaven forbid that this should be

(1) Giuseppe Cenzato and Salvatore Guidotti, *Il problema industriale del Mezzogiorno*, Milan, 1946, p. 18.

(2) SVIMEZ (Association for the industrial development of Southern Italy), *Contributi allo studio del problema industriale del Mezzogiorno*, Rome, 1949, p. 52.

(3) SVIMEZ, *l.c.*, p. 10.

(4) « Neue Zuercher Zeitung », 14th Dec., 1945.

(5) SVIMEZ, *l.c.*, p. 11.

(6) Pasquale Saraceno, *Elementi per un piano quadriennale di sviluppo dell'economia italiana*, Milan, 1947, p. 172.

(7) Cf. Law No. 646 of the 10th August 1950 which instituted the « Cassa per opere straordinarie di pubblico interesse nell'Italia Meridionale » (C.O.S.P.I.M.) (Agency for special works of public interest in the South of Italy) and endowed it with 100 milliard lire a year for ten years (a total of 1,000 milliard lire).

omitted!) etc. — had as their primary object, beside the general task of rehabilitation, the extension and intensification of agricultural production.

In order to avoid the obvious suspicion that industrialization, as it was not mentioned at all, was in fact to be ignored in this programme, it was thought advisable to give it the impressive title of « Plan of pre-industrialization ». Faced with this label we cannot help asking ourselves: « Will a future Government be able to demand of the taxpayer, already so severely tried by the effort to supply 1,000 milliard lire in ten years solely as a "preliminary", the further and greater cost of the complete plan »? Implicit in this question is the more immediate one: how to face the danger of financial strain when American aid comes to an end.

But in our restless age it may seem unreasonable to demand accurate and detailed plans from Governments, who are forced to sail with the wind and are content to live from day to day; it is the magic of big figures that counts! Without that the public might feel tempted to suggest that the programme of the « Cassa » is nothing more than an « alibi », a means of concealing the understandable state of perplexity in which the Government is placed in trying to give effect to the undertaking to develop industry in the South — burdened as that undertaking is with formidable uncertainties and incalculable risks. The « plan of pre-industrialization » provides that for ten whole years there will be no need to worry about real industrialization. But it is also true that instead of a complete cure we are falling back on a mere « palliative » treatment.

There are, of course, some substantial reasons that support the policy of the Italian Government. In order to placate, even temporarily, the spreading restlessness of the agricultural classes, it was necessary once more to resort to a « great gesture » calculated to hypnotize the human imagination and will power. It was once again necessary to flash the mirage of the ownership of a piece of land before the eyes of the rural masses, depressed and bitten with poverty; a vision which still persists in spite of the many failures and disappointments with which the road of land reform is paved. A programme of industrialization could not, obviously, rely on such psychological effects, and moreover uncertainty as to the methods of implementation would have threatened to hinder prompt measures capable of rapidly reducing unemployment. No doubt it would also have been necessary to face the latent and powerful opposition of the industrialists of Northern Italy who would be called upon not only to tolerate but to finance a competition which might prove ruinous.

Very different, on the other hand, are the prospects from a « pre-industrialization » plan, a certain source of large profits — as is in fact proved by a SVIMEZ inquiry (8) which shows that, for every 100 lire of public money spent on a hypothetical improvement in the South, not less than 34 lire (in the form of wages, interest, profits, etc.), would eventually be absorbed by industries in the North. The « generous blood transfusion », so much talked about, would result therefore in a far more profitable business proposition for the suppliers in the North, for which it was well worth while to accept heavier fiscal burdens that could ultimately be transferred. Compared with any possible scheme for the real industrialization of the South, this was by far the lesser of two evils.

But from a technical standpoint — and ignoring considerations of necessary expediency — the ten years' plan of so-called « pre-industrialization » runs into a dual danger, not new in the economic history of the South and experienced in fact in the various attempts at giving effect, from 1904 onwards, to a series of laws passed specially for the South of Italy.

It will be necessary in the first place to avoid undue dispersal of the funds by simultaneously commencing a large number of public works not co-ordinated and perhaps not properly planned (9) and at the same time to

(8) SVIMEZ, *Effetti economici di un programma di investimenti nel Mezzogiorno*, Rome, 1951, p. 62.

(9) Mr. Rocco Gullo M.P. in a speech recently made at Palermo concluded his report on the first year of activity of the « Cassa » by pointing out that the main obstacle to its working was the lack of projects or at least of adequate projects (Cf. SVIMEZ, « Bollettino Informazioni », 2nd January, 1952, p. 9).

avoid spreading the expenditure over too long a period and so defeating the « battering ram » effect of the plan which is so essential to its effectiveness.

Nor can we expect — this is the conclusion arrived at by the SVIMEZ inquiry — any marked and lasting result in the process of smoothing down the differences between the « two Italies » and of reducing the unemployment which is a permanent feature of the South (10) from a mere programme of public works, however considerable it may be. For the localization in the North of the main Italian industries will necessarily mean that the North retains a considerable part of the public money allocated for the benefit of the South, which could have been spent to develop southern industries if the South had possessed an even embryonic industrial organization.

By way of conclusion we repeat that no Government investment intended to increase the income of the South will succeed in its purpose unless it is supported by a new general economic policy... « Improvements of mountainous land, drainage system, etc., must, if they are to improve the standard of living of the South, be accompanied by a far-sighted customs policy based on a sound balance amongst the various regions of the country... » (11). It is the constant warning of Giustino Fortunato, who would have added, and quite rightly, a demand for a reduction in taxation.

3. « *Pre-Industrialization* » *and Absorption of Unemployed Labour.*

Even if we admit that the ten years' plan is preferable, for electioneering purposes, to an industrialization programme, we maintain that once the planned public works have been carried out, the demand for labour will remain at very little above the original level; the number of unemployed that agriculture may be able to absorb is, in fact, limited to a few thousand.

True, the additional quantity of labour introduced into the production cycle during the course and for the realization of the plan will be much greater. According to the arguments put forward by SVIMEZ (12), to the effect that each milliard lire invested in public works represents an average of 909 workers of the South of Italy employed in these works, the sum of 100 milliard lire (annual amount contemplated by the plan) should provide occupation for 90,000 men at present unemployed. If we add the additional units of agricultural labour to be employed annually, which, according to Alessandro Molinari, are at the most 5-10 thousand (13), we arrive at a maximum total, for the South only, of 100,000 workers.

Once, however, the programme of public works has been completed (1960), this figure will, as we have said, be considerably reduced; it would appear in fact that the final number of additional units employed for the purpose of operating and maintaining the establishments created *ex-novo* and the hydro-electric and other plants contemplated by legislative projects (14) could not exceed 10,000-15,000. To this we might add about 5,000 additional workers who will be employed in agriculture if this continues to improve. This last figure, unlike the other, is cumulative from year to year.

4. *Valuations of the Employment of Labour.*

I know of no other series of valuations besides those of Alessandro Molinari and of the SVIMEZ relating to the opportunities for the employment of labour, except the two drafts of a « four year plan », illustrated respectively in 1947 and 1949 in a book by Pasquale Saraceno (15) and in an article by Roberto Tremel-

(10) The number of the unemployed agricultural workers in the South increased from 47% of the total figure of unemployment in 1947 to 57.2% in 1950, reaching maximum figures in Sicily and in Calabria. These figures are even more disturbing in view of the permanent nature of this phenomenon (MANLIO ROSSI DORIA, *Problemi di lavoro in agricoltura*, Extract from the « Annuario dell'Agricoltura Italiana » issued by I.N.E.A., Rome, 1950, p. 393 et seq.).

(11) N. TRIDENTE, deputy Chairman of the « Cassa del Mezzogiorno », in « Mondo Agricolo », 16th September 1951.

(12) « *Effetti economici...* », p. 64.

(13) ALESSANDRO MOLINARI, *Southern Italy*, in « Banca Nazionale del Lavoro Quarterly Review », No. 8, 1949.

(14) Art. 1. of Law No. 646 of the 10th August, 1950.

(15) *Op. cit.*, p. 144.

loni (16). According to those estimates the several branches of activity should expand in the four years from 1948-49 to 1952-53 to an extent which would require the following additional annual supply of labor. It should be noted that these two estimates were made considerably in advance of the establishment of the « Southern Fund » (*Cassa del Mezzogiorno*),and that the figures refer to the whole of Italy.

	Agriculture	Industry	Other Activities (*a*)	Public Works and Building
Saraceno . .	45,000	125,000	100,000	75,000
Tremelloni .	6,000	100,000	100,000	75,000

(*a*) Commerce, transportation, public administration, etc.

When account is taken of some differences in the manner of making the returns — according to Saraceno (17) the figure for workers employable in agriculture includes also those engaged on land-reclamation, irrigation, reforestation, etc., whom Tremelloni includes under the heading of public works and building — there is an obvious decline in the expectation of providing work for the unemployed. One cannot but note the scanty confidence placed by Tremelloni in the possibility that agriculture will absorb unemployed labour. His 6,000 workers per annum (24,000 in four years) for the whole of Italy are far below the estimate by Molinari for South Italy alone.

Apart from statistical divergencies and from the reliability of the data themselves, the estimates we have quoted agree in considering that industry can give work to a much larger number of people than can agriculture. The two estimates are based on the fact that it would be vain to wish to increase the density of the population above a certain well-defined level (reached in the richest parts of the province of Naples) in purely agricultural areas, even by recourse to more active and intensive systems of farming, without giving rise to or reviving pathological conditions. That level fluctuates around one worker per hectare of farm land, against an average of one for every three hectares for the Peninsula as a whole (18). On the other hand, densely industrialised areas can absorb a much higher number; theoretically their saturation point coincides with the possibility of providing in the neighborhood the necessary dwellings for the working population.

Nor does the risk inherent in the marketing of industrial products justify an objection in favor of agriculture. Tremelloni himself warns us that his estimate holds good only on the supposition that it be possible to double the exports of finished products in the four year period (19). But the same qualification holds good for agriculture, for if farming be intensified by the improvements introduced by the ten-year plan, the larger production of choice fruits and vegetables not consumed by the local market will accentuate the dependence of South Italy on foreign markets, *i.e.* it will accentuate the very source of the weakness of southern economy.

Nevertheless, on the assumption that the problem of markets is solved, and that the minor economic activities fulfil the part assigned them in providing employment, there would still be, at the end of the period, according to Tremelloni's estimates (20), 1,800,000 unemployed, a number which might perhaps be reduced, but certainly not in a decisive measure, by the normal current of emigration. It would therefore seem more than ever necessary to set going all the possible means that can be devised by brains and determination for reducing, if it be not possible to eliminate, the congenital disease of Italian economy, and in the first place to have recourse to industrialisation.

5. *The Premise for the Industrialization of South Italy.*

To what extent would it be possible for an industrialised South to meet national and international competition with a reasonable hope of success? Here I can only roughly sketch the main lines of action in this matter (21).

(16) *The Italian Long-Term Program submitted to the O.E.E.C.*, in « Banca Nazionale del Lavoro Quarterly Review », No. 8, 1949, p. 11.

(17) *Op. cit.*, p. 132.

(18) CENZATO and GUIDOTTI, *op. cit.*, p. 22.

(19) *Op. cit.*, p. 7.

(20) *Ibidem*, p. 11.

(21) Let me here refer to the works consulted and quoted in my book *Die italienische Südfrage. Entstehung und Problematik eines wirtschaftlichen Notstandsgebietes*, Duncker und Humbolt, Berlin, 1951, p. 625 et seq.

The North has a crushing superiority in the matter of the available supplies of electric power which is generated or could be generated. This disparity could be remedied, though only to a small extent, by the further utilisation of the geo-thermic power that South Italy, and to a smaller extent Central Italy, possesses. If imports of coal and mineral oils, that weigh heavily on the Italian balance of trade, are to be reduced to the strictly necessary amounts, the Southern mainland and Sicily will have to be connected up with the most important power stations of the North by electroducts. It will also be necessary to face the problem of the equalisation of the rates, one of the many burdens the community will have to shoulder if a serious effort is to be made to create an industrial civilisation in the South.

« One of the many », for the same principle of equalisation will have to be met in other directions, as in that of railway rates for those finished products that are to be exported by land and for the imports that enter by the Alps (indeed only a small part of the raw materials and essential capital goods needed. On the other hand, the South can boast a certain, even if only a slight superiority over the North for the cost of carriage for sea-borne imports).

In the matter of available supplies of labor, the South, at least in so far as numbers are concerned, is certainly not inferior to the North, and the poorer quality — in so far as it exists — is offset by the generally lower level of wages (22). In any case, any plan for introducing industries into the South should necessarily postpone the establishment of those requiring highly specialised workers.

The lower costs of industrial production in the North arising from the fact that much of the capital goods have already been amortised, could, in the general way, be offset in a relatively short time by the fact that the plants newly installed in the South would be more up-to-date, were it not that the industries of the North, availing themselves of ERP credits, are renewing their equipment. The upshot of such rivalry, even under conditions of equality, may well seem doubtful for the South, which will always have to meet greater difficulties and to pay the banks higher rates for ordinary working credit.

If the absence of favourable environmental conditions is to be overcome — and its incidence on production costs has been reckoned at between 15 and 30 per cent (23) — the nation will have to make an immense effort, and this is, in part, the purpose of the ten year « pre-industrialization » plan. It will be necessary to provide and set going those « cumulative factors » that are essential for attracting private capital.

But this will not be sufficient; more direct help will be needed.

6. *Legislation for the Industrialization of the South.*

In the early post-war years, when the need of the geographical redistribution of industry came to the fore, it was realised that a purely negative action (exemption or reduction of duties, rates, taxes, etc.) could not suffice for the realisation of so immense a task. It needed something more than the establishment of the free zones above referred to (24); government action would have to take a positive and even a preventive form; it would not be enough to nourish, safeguard and promote the growth of existing organisms; it might be necessary to summon them into life by active intervention. In its turn, such intervention has been « over-simplified » in assisting the entrepreneurs with the necessary long-term capital at a low rate of interest in one or other form: either by the Government subscribing part of the share capital (a means so far excluded owing to shortage of funds); or by the grant of preferential loans through special banks formed for that purpose and assisted by government guarantees; or by State assistance through the payment of part of the interest due on such loans.

(22) As is shown by Rossi Doria's study, above referred to, the rate of wages in the South for the ordinary work of day-labourers is, in extreme cases, only half and less than half that paid in the North. Moreover, the wages actually paid may even be 30-40% lower than the official rates. These figures give the measure of the intense competition for the few jobs available in the South, rich only in man-power.

(23) Cfr. A. Molinari, *loc. cit.*

(24) In addition to that at Naples there are others at Palermo, Messina, Villa S. Giovanni, and Reggio Calabria.

Indeed, the so-called Togni and Porzio Acts, and that of 1950 which completed and to some extent amended them (25) were devised on those lines. Fiscal and customs facilities were coordinated with provisions for immediate financial assistance in the shape of credits granted by the Banks of Naples, Sicily and Sardinia in the South and the Islands. The loans, which in no case may exceed two thirds of the share capital (the borrower must himself supply the remaining third) were guaranteed by the Government to an extent originally fixed at 70%. The Government also undertook to contribute towards the interest payments on loans at the rate of 4% (26).

The above facilities, and others connected thereto in a not very consistent way, are open to two criticisms which were rightly directed in the past against the special legislation for South Italy enacted by Zanardelli (before the first world war).

In the first place it should be noted that the total amount of this help was limited to 10 billion lire (27) barely sufficient, according to reliable estimates for setting up productive concerns able to afford employment to another 5,000 workers, a drop of water in the vast ocean of unemployment! The insufficiency of the appropriation has been shown in practice by the great number of applications that remained unsatisfied. For instance, by the end of 1948 the Bank of Naples had received applications for loans that exceeded 7 or 8 times the quota of 6.2 billion lire assigned it (28). To limit the number of applications, the Act of 1950 (art. 10) reduced the Government guarantee from 70% to 50%; this however drove the Banks to ask that borrowers should give as security not only all their fixed assets but also their personal, movable, and liquid ones (29). In this way, the undertakings were deprived of their working capital, and of the basis for obtaining it on loan, and often found themselves in the most dangerous difficulties just at the time when they most needed a breathing space.

But apart from such contradictory results, which had probably not been foreseen, and which were a consequence of the amendment made in 1950, the legislation now in force has a grave defect. It does not complete the facilities offered to borrowers of capital funds by granting other correlative facilities which would assure them adequate working credit. The total appropriation made for supplying working credit, fixed in an amount of 3 billion lire, the individual loans being limited to 15 million lire each (30), was irrelevant. These insufficiencies of the legislation have induced the Banks to prefer to help concerns that are already in existence, to the disadvantage of others either planned or under consideration and which would be of greater importance for the desired purpose of industrialization.

It would therefore seem desirable that the existing laws be completed and further amended. The new undertakings should enjoy preferential treatment in the matter of financial facilities; they should be granted working credit on a scale proportionate to that granted for setting them up; it would be urgent to raise the now quite insufficient Government guarantee, even as high as 100% (31); and lastly — and this requirement is perhaps theoretical so long as the pre-industrialization stage lasts — the appropriations for loan concessions should be multiplied.

Satisfaction should also be given to the reasonable requirement that the many laws, which are not well coordinated, all dealing with the industrialization of South Italy, should be compiled and condensed into a single codified text like that which was enacted in 1933 as the Serpieri Act, summarising the legislative efforts of more than a decade on

(25) Act n. 1598 of 14th Dec. 1947; n. 1482 of 20th Dec. 1948; n. 261 of 9th May 1950.

(26) This undertaking was completed by requiring the Banks making the loans to limit the full cost to the borrowers to 5% (art. 8 of the Act of May 9, 1950, No. 261).

(27) Act of December 15, 1947. Majored by another 10 billion by the Act of May 9, 1950.

(28) SVIMEZ, *Contributi...*, p. 127, Note 1.

(29) SVIMEZ, « Bollettino Informazioni », June 6, 1951.

(30) Art. 9 and 13, Act of December 15, 1947.

(31) This request was brought forward at the Second Meeting for the industrialization of the South and the Islands, held at Bari from 24th to 27th May, 1951, following a Report submitted by the SVIMEZ (See « Bollettino Informazioni », June 6, 1951). That Report had pointed out that it was likely that just those private enterprises that have need of adequate working credit would be those that would find themselves in difficulties as a result of a government guarantee that was only partial.

land-reclamation works. The example set by that Act is of more than formal significance. What is really important about it and what entitles it to be held up as a model, is the principle that inspired it, that of giving effect to and regulating a series of initiatives and of Government and private obligations, each clearly differentiated one from the other, but all aiming at increasing the productive capacity of the country. We cannot conceive of the growth of the industrialization of the South without placing industry and agriculture on a footing of equality in the legislative, financial, propaganda and I might almost say ethical plane.

The objection raised against the Togni-Porzio Acts deals however, as we have already said, with a yet more fundamental defect. Those Acts are nothing but one of the innumerable attempts made to cure by paliatives an old and running sore that demands the surgeon's knife. A severe critic would be inclined to condemn them along with those which have preceded and will follow them, inspired by like tendencies — and with them also the ten year plan — as superficial makeshifts to which Governments incapable of taking decisive action, have had recourse. This does not mean that such remedies are in themselves useless, but if they are to attain the desired results they must — let us repeat it — form part of a coherent economic policy, very different from that so far followed. And if it should be impossible to make such a change of direction on a national scale, then it should be carried out regionally. The example set by the Regional Government of Sicily is, in this matter, a telling example. By declaring all agricultural machinery and implements and all machinery required for processing the agricultural products of the Region exempt from all customs duties (32) it has opened a breach in the Italian customs barrier. Moreover Sicily has asked for the unconditional exemption of no less that 19 items and the conditional exemption of 29 others, provided the imported implements are intended exclusively for agricultural use. It is true that if this method were to be persisted in, national economic unity — the holy of holies of XIXth century liberalism and of that yet nearer to us — would be broken. But those who accept the views of G. Mirabella (33) and believe that the second half of our century should « repeat within the borders of each country that geographical redistribution which was carried out in the last century in the international field » might even come to the heretical conclusion that the same means should be followed for the same ends, *i.e.* that customs barriers might be set up within a country behind which a series of selected industries, suited to the environment and intended above all to meet the needs of local consumption, might arise and expand (34). Such a policy, intentionally daring, does not undaly exceed the precedent offered us by the Sicilian Regional Government which while it does not go so far as to set up a regional customs barrier, is nevertheless determined to demolish the citadel of national customs duties. It might give rise in South Italy to an autonomous industrial system at a much lower cost to the tax-payer than that of a direct and complicated paternalistic intervention.

To sum up, unless the special legislation is accompanied and completed by a courageous change in general policy, it will be a mere soap-bubble, however much energy and means are spent on it.

7. *The Results that may be expected from the Reciprocal Development of Industry and Agriculture.*

Should an industrial movement of some importance be set going in South Italy, it will at last lead to the growth of that non-agricultural purchasing power, the lack of which has not only paralised economic progress but has been the primary cause of the sensitiveness of the South to all cyclical changes. A shift, if only partial, towards their own local mark-

(32) *Statuto della Regione siciliana*, with introductory notes by Calogero Bonavia, Palermo, 1950 (see art. 39).

(33) Giuseppe Mirabella, *Caratteri positivi e negativi della partizione territoriale delle industrie nell'unità dell'economia nazionale*, Palermo, 1951, pp. 30 et seq., 51.

(34) The food industries excepted, which are by their nature exporting ones. For other details see SVIMEZ, *Contributi...* etc., pp. 63 et seq.

ets of the commercial currents, until now directed almost exclusively towards foreign markets or those of North Italy, would help to make the South more independent of the ups and downs of international trade and of the arbitrary trade restrictions enacted by others.

Little by little, as the demand for industrial labor would make itself felt in the agricultural districts, bringing about a desirable reduction of surplus rural man-power, the relative power of the agricultural classes to purchase the commodities offered by the new industries would rise. The reduction of the mass of unemployed and under-employed would help, almost automatically, to rationalise farming methods, and the reduction of the number of people dependent on the land would lead to the enlargement of the livestock on the farms, heretofore cut down as the result of an unequal competition between animals and men who, driven by needs arising from the growing density of the population, have contended for whatever food the land could provide.

Nor is this all. The farmers whose individual incomes would increase would call for larger quantities of the instrumental goods supplied by industry, which, on its side, would increase and diversify its demand for farm products of better quality. Hence a further increase in the purchasing power of the rural population with a consequent concatenation of effects. The whole economy of the South would thus be dragged into a spiral no longer gravitating downward as in the past, but ascending towards a higher economic level; and the notorius vicious circle, to which it seemed inexorably condemned, would be broken once for all. The purchasing power which would be formed in the agricultural and in the industrial sections through this process of reciprocal exchange, unlike that produced by the « pre-industrialization » program, would remain to serve the economy of South Italy providing a strategic reserve-fund in the interests of southern economy, whose steady development would assure employment for labor, reduce unemployment to a less pathological level and raise the living standards of the population. And we should have, at the same time, a development of potential wealth-producing assets, that have been so far neglected.

Unemployment Statistics in Italy

(with Special Reference to Southern Italy)

by

ALESSANDRO MOLINARI

I - The Official Statistical Returns.

1. — To facilitate the understanding of the data and the remarks set forth in this article we will briefly describe the history, characteristics and purpose of the statistical returns on unemployment compiled by the Government services (1).

The available series of statistics may be classified in two groups: (a) the old series, from 1919 to 1941; (b) the new series from 1946 onwards.

(a) The *old series* cover the data:

— of the first systematic returns, begun in 1919 and compiled until 1923 by the *Ufficio Nazionale per il Collocamento e la Disoccupazione* (Ministry of Industry, Agriculture and Commerce) through local « Labour Exchanges » (*Uffici di Collocamento*) — of which there were then only a small number — and the so-called *Commissioni di avviamento al lavoro;*

— of the returns compiled by the National Fund for Social Insurances (*Cassa Nazionale per le Assicurazioni sociali* (2) from 1924 to 1933, based on data supplied by the Labour Exchanges;

— of the returns compiled from 1934 to 1941 by the then Ministry of Corporations, through the decentralised Labour Exchanges.

(b) The *new series* cover the data obtained from the returns made since 1946, through the decentralised Labour Exchanges, by the Ministry of Labour and Social Insurance.

2. — Both the old and the new series have as their object persons seeking employment *registered* with the Labour Exchanges. Their fundamental purpose, indeed, is to meet the needs of the Public Authorities in carrying out the operational tasks entrusted to them in the labour field.

The persons registered with the Labour Exchanges form what is known as « registered unemployment ». These data on registered unemployment undoubtedly afford valuable information in a country where the placing of workers is a public function and where the law requires that most workers be hired through the decentralised government Labour Exchanges (3). Nevertheless, whatever be the

(1) For fuller particulars see Edmondo Cossu, *La nuova statistica degli iscritti agli uffici di collocamento*, in « Rassegna di statistiche del Lavoro », No. 5, September-October, 1951, p. 505 et seq.

(2) The *Cassa Nazionale per le Assicurazioni Sociali* (now *Istituto Nazionale per la Previdenza Sociale*) administered — and still administers — the funds for grants to unemployed workers.

(3) This has been the case in Italy for the past twenty years and more. The Act of April 29, 1949, No. 264 on « Measures for finding work and assisting unemployed workers », has confirmed and emphasised the public character of the task of placing workers and the obligation to hire them through the Labour Exchanges. The exceptions to this compulsory rule provided for under art. 11 of the Act are restricted, and relate mainly to the spouse, relations not beyond the third degree of the employer; persons engaged to fill managerial positions; skilled and specialised workers engaged by means of competitive examinations; workers remunerated exclusively by a share in the proceeds inclusive of métayers and crop-sharing farmers; domestic servants, house porters, persons working in the offices of the liberal professions, and all workers engaged in household services.

legislation in force, returns for persons registered with the Labour Exchanges are always subject to notable limitations.

First of all, they afford no information about groups who need not be hired through the Labour Exchanges.

Moreover — and this is of special importance for the purposes of this study — one cannot obtain from them the information needed for making a direct estimate of certain special and noteworthy features of unemployment and under-employment, such as the unemployment and under-employment of « white collar » workers, under-employment in industry and above all in agriculture.

Lastly, the informative value of the data on persons registered with the Labour Exchanges depends on the extent to which the rules requiring that workers be hired through the Labour Exchanges are enforced. Evasions and irregularities may seriously affect the data in plus or in minus, both as regards the number of those who succeed in registering without being really unemployed, and as a result of « clandestine » hiring, regardless of the obligation to apply to the Labour Exchanges.

3. — Some explanations may be useful on the principles and methods followed in the case of the *new series*.

(a) *From 1946 to 1949:*

In view of the deficiencies caused by war in the operation of the decentralised Labour Exchanges and in the enforcement of the rules regulating the labour market, the Ministry of Labour, from 1946 until June 1948, limited the returns required of the Labour Exchanges to the figures for persons registered with them at the end of each month, classified by *sex* and belonging to the following *groups*: (a) agriculture, (b) industry (4), (c) commerce and banking, (d) sundry (clerks, labourers, seamen).

On the basis of the periodical returns made by the provincial Labour Exchanges the Ministry attended to compiling and publishing the national returns.

In July, August, and September 1948 a general revision of persons registered with the Labour Exchanges was made, and those listed were classified under four headings:

Class I - Pensioners and persons in employment seeking a different job.

Class II - Women in the home seeking a first job.

Class III - Young people under 21 and youths discharged from military service seeking a first occupation.

Class IV - Unemployed previously employed.

As from October 1948, the provincial Labour Exchanges were required to forward to the Central Statistical Service of the Ministry the data for persons registered with them on the last day of each month, classified under the four headings as above, and by sex. The groups of activity were enlarged by the addition of other important branches of industry. The monthly data were to be summarised and were to refer to: (a) agriculture, (b) industry, (c) transports and communications, (d) commerce, (e) banking and insurance, (f) general labourers (5), (g) clerks. The Labour Exchanges were to supply the Ministry each quarter not only with the data for the seven groups as above, but also with those for the sub-groups of economic activity (in all 33 sub-groups).

(b) *From 1950 to February 1951:*

Consequent on the new provisions on Labour Exchanges contained in the Act of April 29, 1949, No. 264, since January 1950 persons registered with the Labour Exchanges have been classified in five groups instead of four, to wit:

Class I - Unemployed workers previously employed.

Class II - Young people under 21 and others

(4) The item « industry » covered mining and quarrying, engineering, food industries, water, gas and electricity, textile and clothing, wood and furniture, chemical and glass trades, paper and printing, public entertainments, fishing.

(5) By « general labourers » were meant, as before, those who cannot be assigned to any special group of activity.

in search of a first job, and youths discharged from military service.

Class III - Women in the home seeking a first job.

Class IV - Pensioners seeking a job.

Class V - Employed workers seeking another occupation.

(c) *From March 1951 onwards:*

A further, and this time a substantial improvement has been made since March 1951.

Thanks to the installation in the Ministry of Labour in Rome of a mechanographical apparatus, a national card-index has been compiled of all persons registered with the Labour Exchanges. A personal card has been made out for each registered person, giving all data essential for classification (6) and for following in due time subsequent movements (7).

In addition to the classification by sex, class (five classes) and group of economic activity, the registered persons are classified under one of 30 « occupational categories », subdivided in their turn into 250 « standard trades ». The occupational categories and standard trades are listed in a special « national guide », which, when completed, will also show the skill and specialisation of the standard trades (some 3 thousand items in all).

The monthly returns received from the decentralised Labour Exchanges enable the Statistical Service of the Ministry to know in good time not only the national and provincial data for each branch of economic activity, but also those for the small Communes, and for branches and sub-branches of economic activity, occupational category, standard trade, skills and specialisations. These improved returns will allow of more reliable estimates of the character of *registered* unemployment. They will be all the more significant if evasions and irregularities are reduced, as may be expected with the improvement in the services of the decentralised Labour Exchanges (8).

(6) The one of the five classes to which the person is assigned; the branch of economic activity to which he belongs; his trade and qualifications; sex; civil status (unmarried, married, with or without children); school grade; specialisation; number of members of the family; subsidy, if any, received.

(7) Registration, re-registration, assignment to work, taken off the register, with date (day, month, year).

II - "Registered„ Unemployment.

4. — In spite of the serious defects of past statistical data and the diversity of the methods adopted for the returns since 1919, we may suppose that at least the *ratio* between unemployment in North and South Italy may be considered reliable. The data are summed up in Table I.

TABLE I

PERSONS REGISTERED WITH THE LABOUR EXCHANGES

Year (a)	Italy	North (b)	South (c)	
			N.	% of Italy
		Old Series		
1922	407,364	348,810	58,554	*14.4*
1923	246,396	204,436	41,960	*17.0*
1924	164,853	125,786	39,067	*23.7*
1925	110.298	77,302	32,996	*29.9*
1926	113.901	91,208	22,693	*19.9*
1927	278,484	229,457	49,027	*17.6*
1928	324,422	262,970	61,452	*18.9*
1929	300,787	247,649	53,138	*17.7*
1930	425,438	335,352	90,086	*21.2*
1931	734,454	567,738	106,716	*22.7*
1932	1,006,342	770,433	236,009	*23.4*
1933	1,018,953	804,564	214,389	*21.0*
1934	963,677	750,550	213,127	*22.1*
		New Series		
1946	1,428,101	946,183	481,918	*33.9*
1947	2,227,866	1,553.530	674,336	*30.3*
1948	1,656,263	1,393,561	562,702	*28.8*
1949	2,085,850	1,409,649	676,201	*32.4*
1950	2,109,230	1,374,252	734,978	*34.8*
1951	2,119,520	1,368,062	751,458	*35.5*
1952	2,243,938	1,406,503	841,480	*37.4*

(a) From 1922 to 1934, annual averages; from 1946 to 1952, end of January figures for each year.
(b) Northern and Central Italy.
(c) Southern Italy, Sicily, Sardinia.

These figures afford proof of the noteworthy increase in unemployment in South Italy in this post-war period and also show that it has become more marked in the last few years, notwithstanding the measures taken

(8) A few annexed Tables (A, B, C, D) sum up the more characteristic features — grouped in the main geographical divisions of Italy — of *registered* unemployment in January 1951 and 1952 (See pag. 86 ff.). For the more thorough study of the situation — made in the subsequent paragraphs — only some representative months are considered.

in favour of the South. There is, indeed, nothing surprising in this in view of the greater annual excess of population in the South as compared to North Italy, and the scanty emigration both to other parts of Italy and abroad.

A very different situation can be found in Northern Italy, where unemployment is, on the whole, diminishing (See Table I, above, and Table II).

TABLE II

PERSONS REGISTERED WITH THE LABOUR EXCHANGES: INDEX NUMBERS

December 1946 = 100			December 1949 = 100		
Year	North	South	Year	North	South
1947	86.2	81.8	1950	93.3	103.6
1948	95.2	120.2	1951	91.2	104.6
1949	91.4	112.0			
1950	90.7	116.0			
1951	81.3	118.6			

5. — *Rate of unemployment (ratio of unemployed to employed).* The lack of up-to-date statistics on the labour force does not allow us to make a correct calculation of the rate of unemployment, *i.e.* to calculate the ratio between the unemployed and the employed of the same category (9) either for the several branches of activity or of economic activities as a whole.

We are thus unable to express an opinion on the real bearing of unemployment.

One can however get a clue to the situation by accepting the hypothesis that in 1951 the territorial distribution of available workers between North and South was in the same ratios as in 1936 (10).

By referring the data on persons employed in 1936 to those on the unemployed in 1951, we get the ratios between North and South specified in Table III.

TABLE III

RATIOS OF UNEMPLOYED TO EMPLOYED PERSONS

Area	Percentages		Unemployed per 100 employed (a)	
	Employed	Unemployed	%	Index N. North = 100
North	71.1	60.9	18.5	100.0
South	28.9	39.1	29.1	157.3
Italy . . .	100.0	100.0	21.5	

(a) Unemployed in November 1951 referred to the number of workers returned by the 1936 census. For the comparisons with the percentages of 1931 cited in note (9) we should need, on the one hand, to deduct from the number of unemployed in 1951 those in search of a first job (classes II and III) and on the other hand to raise the figures for the employed population. The following percentages have been obtained for 1951 on the base of estimates: North 10.0%, South 17.5%, Italy 12.1%, a figure slightly higher than that of 11.9% in 1931. The percentage for the North is, according to this calculation, considerably reduced (from 14.2% to 10%) while that for the South has risen from 7.7% to 17.5%.

This would show that the rate of unemployment in the South is now near 60% higher than in the North.

6. — *Unemployment classified by main groups of activity.* It is not possible to draw territorial comparisons classified by branches of activity because of the large percentage accounted for by the groups « unspecified workers » and « employees ». On the supposition that the unemployed described as « unspecified

(9) This ratio can only be calculated — and of course only approximately — for the year 1931 when the census of population, taken on 21st April of that year, included an enquiry on unemployment. The returns referred to unemployed persons between the ages of 15 and 64, and did not include persons seeking a first job. At that date the number of unemployed, calculated on a very restrictive and prudential basis, stood at 920,000, as compared to 680,000 registered with the Labour Exchanges only a little earlier. The difference between the two figures amounted to over one quarter.

If we refer the figures for unemployed returned for the census to the number of workers of the same group at the same date we get for 1931 the following percentages:

Brank of activity	Italy Total	North. Italy	Central Italy	South. Italy	Islands
Agriculture . . .	9.1	14.4	6.6	4.7	5.6
Industry	15.3	16.4	14.6	11.9	13.7
Transports and Communications	8.2	8.9	5.6	7.2	10.4
Commerce . . .	12.8	13.5	9.5	10.9	12.2
Sundry	3.2	4.0	2.1	2.1	1.9
	11.9	14.2	10.4	7.7	9.1

(10) Cfr. « Informazioni SVIMEZ », No. 11-13, March 1950: *La popolazione attiva del Mezzogiorno nel 1949.*

workers » all belong exclusively to *agriculture* and *industry*, it would appear that these two branches taken together (inclusive of « unspecified workers ») account for 60.1% of the unemployed in the North and 39% in the South (averages for May, July, and November, 1951).

If we compare these percentages with those of the labour force — 69.3% in the North, 30.7% in the South — we are led to the conclusion that, even when all due reservations are made about the data used, the hypothesis of heavier unemployment in the South (in agriculture and industry taken together) is confirmed.

7. — *Male and female unemployment.* For the sake of brevity, the calculations on unemployment classified by sex have been made for a few months only. This does not affect the validity of the observations as the aspects here considered are characteristic of present structure of unemployment in Italy.

This is the case, for instance, with the percentage of males to the total unemployed (Table IV); a percentage which, as was to be expected, is notably lower in the North (where it fluctuates around 63%) than in the South (over 74%).

TABLE IV

Months	% of males to total number of unemployed	
	North	South
November 1950 . . .	63.2	74.5
May 1951	64.0	75.0
July 1951	62.7	73.9
November 1951. . . .	64.1	75.5
January 1952	66.7	78.3

(a) *Per branch of activity.* — The reservations repeatedly made deprive the data for the several branches of much of their significance. Nevertheless the ratios between North and South are fairly representative. In Table V, we give the percentages calculated for January 1952.

TABLE V

Branch of activity	% of males to total number of unemployed	
	North	South
Agriculture	61.3	86.3
Industry	69.1	72.4
Transports	97.3	98.7
Other occupations . . .	49.5	55.6
Unspecified workers . .	65.6	79.1
Employees	64.8	78.4
Total . . .	66.7	78.3

Whatever be the branch of occupation, the percentage of males unemployed is higher in the South; the difference is most marked in agriculture. In « other occupations », which cover — in addition to commerce, banks, etc. — domestic service, the percentage of males stands around 50% of the total (a little less in the North, a little more in the South).

(b) *Per classes of unemployed.* — The data for the three groups of unemployed, in which the five classes considered by the official statistics may be summed up, are given in Table VI.

TABLE VI

Unemployed	% of males to total number of unemployed					
	January 1952			January 1951		
	North	South	Italy	North	South	Italy
1) Previously employed (a) . .	75.2	82.8	78.0	73.7	83.4	77.2
2) Seeking a first job (b) . . .	48.7	68.7	55.9	47.0	66.7	53.7
3) Others (c) . .	83.8	91.7	87.2	85.5	89.3	87.3
Total .	66.7	78.3	71.1	65.8	78.9	70.5

(a) Class I; (b) Classes II and III; (c) Classes IV and V.

The differences in the percentages for North and South are less marked for group 1 (unemployed previously employed) and highest for group 2 (persons seeking a first job). Here women account for 50% of the total for Italy as a whole, for more than 50% in the North and for about one third in the South.

8. — *Seasonal character of unemployment.* The study of the seasonal character of unemployment in the different areas, and of its causes, would be of considerable practical importance if we possessed, at least for some years, statistical data reflecting a « normal » situation, considered not only in relation to unemployment but also to the continuity in the methods of securing returns and to the efficiency of the Labour Exchanges.

For studies on the causes of monthly fluctuations it would also be necessary to analyse the regional or provincial data and those for the several branches and groups of activity.

The material now available satisfies none or very few of these requirements.

III - « Unregistered » unemployment.

9. — To get a complete picture of the phenomenon of unemployment, account should be taken not only of that registered by the Labour Exchanges but also of « unregistered » unemployment, which in Italy, and in the South, as generally speaking in all depressed and over-populated areas, consists of a great body of « quasi-unemployed » or « under-employed » persons. This body — which is not registered and in many cases could not be registered by the Labour Exchanges — weighs heavily on the labour market and on the national economy. The definition of unemployed strictly, we might almost say administratively speaking — *i.e.* of persons out of work but able to work and previously employed, in search of a job, and also of the new recruits who arrive each year on the labour market, consisting of those who have fulfilled their scholastic and military duties and must work to earn their livelihood — is thus enlarged and complicated. Hence the need of explanations and suitable definitions.

To this end, the non-registered unemployed must be distributed in two groups.

(A) The first group consists of those who escape registration with the Labour Exchanges but who should or might be registered. This group consists of those who do not pass, or do not always pass through those Exchanges either because the Exchanges themselves are inefficient, or because of local difficulties (distance, inadequate means of communication) or because of the old and deeply-rooted traditions of the populations (generally related to the inefficient working of the Labour Exchanges) or because of local prejudices (in the case of female workers in some parts of the South), or because unemployed persons for whom the maximum length of time for which the unemployment dole is paid has expired do not take the trouble to register, etc.

If it be true, as many have assumed, that the Labour Exchanges in South Italy are less efficient than elsewhere (partly because of the prevalence of agricultural activities in socially backward communities), it would be evident that South Italy is worse off than the North, also in the matter of unregistered unemployment. Unfortunately we have no figures in support of these « impressions ».

(B) In the case of the second group of unemployed who are not registered with the Labour Exchanges and who generally speaking are « unregistrable », the notions of the so-called « unoccupied », « under-employed », « over-employed », « hidden-unemployed » and « latent-unemployed » need to be defined.

With the introduction of these notions we tend to pass gradually from the field of « work » strictly understood, to that much wider one of income (or rather of low income) which in its turn raises the problem of the « minimum wage » or the « living wage ». The leading idea is that all those who are below that minimum, for whatsoever reason, should be entitled, as are the unemployed, to relief. This leads us *to consider in addition to the unemployed workers also those who at the time of joining the ranks of the unemployed were not working as subordinates and even those who belong to the so-called « non-professional » classes, such as housewives etc.* This entails many complications and uncertainties in definitions, statistical returns, the social and economic significance of unemployment.

It is difficult to fix a boundary line between unemployment, poverty and indigence. If we

are to remain in the field of employment and unemployment we should therefore limit ourselves to dealing with the principal types of unemployment above mentioned, which are constantly recurring in economic and social literature.

(a) *The « inoccupati » (unoccupied).* — This expression has been coined and put in use in Sicily. The notion behind it — which has come to the fore mainly because of the unreliable nature and incompleteness of unemployment statistics — is that of considering as « unoccupied » able-bodied persons of both sexes who for some reason or other are not engaged in any trade or profession.

For the purposes of a first rough calculation, the extent of « unoccupation » may be measured by comparing the « active » population (11) with the whole population at the same date (generally speaking the date of the Censuses).

This give indeed a summary estimate, as it does not take account of the diverse influence that the varying ratios of old people unfit for work, young people (students etc.) over 10 year of age, housewives or members of large families, etc. may exercise on the result of the calculation. To say nothing of the force — sometimes insuperable — of the tradition against wagework for women (especially in South Italy), and of the well-known unreliable character of the census returns for women employed in agriculture.

The notion is however a fundamentally sound one. If the use of suitable statistical methods were to eliminate the influences above mentioned, it would be possible to reach a less rough estimate than those so far obtained from the bare unrevised data, on which the percentages of Table VII have been calculated.

In calculating the number of « unoccupied » persons, the starting point is given by the census returns of population of working age. It is admitted that a certain percentage of this population cannot, under normal conditions, find work for social reasons (married women looking after their homes, students, inmates of institutions, etc.). This normal percentage is fixed on the basis of ascertained facts. For South Italy the percentage accepted as « normal » is that returned for North Italy. When this « normal » percentage is applied to the census returns of population of working age, those persons who remain in excess of those returned are held to be « unoccupied ».

(11) The expression « active » population refers to the number of persons over 10 years of age occupied in economic activities, increased by the number of the unemployed, but exclusive of persons who do not exercise a paid trade or profession (*e. g.* inactive persons, old people unfit for work, housewives, students, etc.).

TABLE VII

PERCENTAGE OF « ACTIVE » POPULATION TO THE WHOLE POPULATION

	Males	Females	Total
Northern Italy	81.9	35.1	57.7
Central Italy	81.2	30.8	55.1
Southern Italy	79.4	27.3	51.6
Islands	80.0	11.5	44.6
North	81.7	33.9	57.0
South	79.6	22.1	49.3
Italy - Total	81.0	29.9	54.4

Thus if we take as normal for the South the above percentages returned for the North, the number of « unoccupied » in Southern Italy in 1936 would be as follows:

	Males	Females	Total
	(Unoccupied)		
South	82,000	266,000	346,000
Islands	30,000	443,000	473,000
Total	112,000	709,000	819,000

In 1936 the number of « unoccupied » persons in the South would have stood at 800,000 (inclusive of the unemployed estimated in 1936 at some 250,000). Today the number is probably about one million.

Therefore, in the South, « unoccupied » persons would account for about 20% of the « active » population, and for about 10% of the whole population over 10 years of age.

Women account for much the largest part of the « unoccupied ». This reduces the signi-

ficance of the data, especially when account is taken of the doubtful value of the census returns on the nature of the work performed by the women of the rural classes.

Evidently, the notion of « unoccupied » is extended in these calculations to cover those who do not hire their services.

(b) *Under-employment and hidden unemployment.* — The notion of under-employment would seem to be a simpler one; it would cover, substantially, a degree of employment below « normal ». The difficulty lies in the definition of that « normal » (expressed in hours of work or year-days of « normal » work). For industries other than seasonal the notion is a relatively simple one (for instance, 8 hours of work a day for about 300 days). The statistical returns of the Ministry of Labour would allow of making rough calculations of this kind for « industry » only (exclusive of the building trades).

But, in the case of agriculture, uncertainty prevailed until recently, and room was open for many hypotheses. Recent calculations however make it possible to give a more accurate definition of the nature of the phenomenon and to reach a rough estimate of its size, provided we accept the idea of including also in the calculation the under-occupation of those who do not hire out their services or who do so only partially.

One of the methods suggested is that used in the enquiry into the conditions of labourers in the lower Valley of the Po (12).

Undoubtedly the fixing of a « *guaranteed minimum* » involves arbitrary assumptions. If the « guaranteed minimum » is to have a sound basis it should refer to a minimum standard of living to be assured each person for 365 days each year. We are thus inevitably led to the wide field of discussions on income and the minimum wage.

These investigations however serve to improve the traditional notion of « unemployed » persons (at a given moment) by introducing a rational basis for estimating unemployment, no longer considered at a given moment but over an annual cycle, thus making it possible to measure the real intensity of the phenomenon expressed in *per annum* days of work (per unit). The days of work « lost », as referred to « normal » employment, are therefore ascertained.

So far, however, the field is always limited to the unemployment of hired labour in the strict sense of the expression.

But considered from the social-economic standpoint (and above all from that of *per capita* « income ») the notion of unemployment, especially in agriculture, has a tendency to widen out until it includes that large mass of people (agricultural groups who are not hired labourers) who possess a very small — sometimes a tiny — holding with working implements, and who are seeking (or would seek if their surroundings of psychological outlook allowed) for wage work whereby to enlarge or round out their income. To a large extent these people are not registered with the Labour Exchanges.

This under-employment, known as *hidden unemployment*, is for the most part agricultural and affects the small holding formed by the family *i.e.* the great majority of Italian farms — on which both manual work and management are supplied exclusively or almost exclusively by the operator (owner, tenant, crop-sharer) and by the members of his family.

According to a valuable Report by G. Orlando (13) such agricultural undertakings (covering about 2.7 million hectares) account for some 800-900 thousand persons who in varying degree are under-employed (farm labourers and small farmers).

The above Report has made a rough but fairly accurate estimate of the degree of em-

(12) See G. Medici and G. Orlando, *Agricoltura e disoccupazione - I braccianti della Bassa Pianura Padana*, Bologna, 1952. To ascertain global *unemployment* expressed in *days of work* that would be required to absorb the unemployed, it is necessary first of all to ascertain the number of workers and the number of days they actually work during the year. This number is then compared with that of the minimum days of work that should be « guaranteed ». The difference between the two is then inclusive of all forms of unemployment (total or partial), expressed in days of work. When the number of totally unemployed is known (expressed in days of work) the number of the under-employed broadly stated can also be deduced.

(13) Giuseppe Orlando, *La disoccupazione nell'agricoltura italiana*, submitted to a Meeting for Statistical Studies on Unemployment (15-16 March, 1952).

ployment (and therefore also of under-employment) in the various parts of Italy. It would show that hired labourers (casual or permanent) are employed on an average in South Italy for 78 working days in the year, as compared to 117 in North Italy. Operating farmers work 138 working days in the year in the South as against 163 in the North.

The Report goes on to state: « the fact that unemployment of agricultural labourers is heaviest in southern areas both because the annual days of employment are fewer and because the number affected is greater, leads us to an important conclusion, *i.e.* that the unstable and precarious archaic agriculture of the large estates (*latifundia*), where we find real peasant towns of 40-50-60 thousand inhabitants surrounded by poor and scanty lands, are undoubtedly centres of rural unemployment. That form of agriculture is unable to absorb the natural rate of increase of the population... However, among the areas mentioned as the most severely affected, we find not only those under extensive farming of the « *latifundium* » type; the most grievous situations are found precisely where the work of man has built up a stable and progressive agriculture (the coast lands of Campania, Apulia, Calabria). *This suggests that the problem of agricultural unemployment cannot be permanently solved without the help of industry.* Only in those regions where industry has entered the towns in search of hands, and where agriculture has become a highly differentiated occupation engaged in producing for the market, is the vicious circle broken and has unemployment been *definitely* expelled from the countryside ».

Of the 2 and a half million agricultural labourers in Italy no less than 1.3-1.5 million are unemployed for a more or less long period each year. But at least in 40% of the cases (600 to 700 thousand persons) this unemployment is not a very serious matter as it coincides practically with the seasonal winter stagnation, and it should therefore not be described as unemployment in the real meaning of the word. But even so there still remain from 800 to 900 thousand persons (60% of the total figure) who are out of work for long periods of the year, even when field work is at its busiest.

(c) *Over-occupation.* — Over-employment may be considered from two points of view: as the opposite of under-employment (*i.e.* an excess of hours or days of work), or the excessive number of workers employed as compared to those required if the methods of work and the organisation used were « normally » efficient, producing normal per unit yields, and with the right of the entrepreneurs to hire or dismiss labour freely. In this case the appropriate expression would be not « over-employment » but « employment of excessive numbers ». This group includes both the persons affected by the requirement that a given number of workers be employed (as is the case in agriculture) and by the prohibition to dismiss workers (the so-called « labour block »), and also the surplus-number of workers employed because of the backward technological systems in use and the poor organisation of the undertakings. They may, in short, be described as *potential* unemployed who will lose their jobs, as industrial methods improve.

Calculations on this subject have been made in the international field also (14) but it is evident that the criteria adopted are open to discussion, as are also the results obtained, because of the arbitrary choice of the term of reference.

For instance, W. E. Moore bases his study on four reference levels: a maximum one based on the average *per capita* output of agriculture in France; a second level based on the output per hectare of arable land in France; a third — the one to which he gives his preference — based on the average *per capita* level of production in Europe; and lastly a minimum level based on the productivity of France considered jointly with the level of average *per capita* production in Europe.

He obtains the results indicated in Table VIII.

We pass from a surplus of 10.7 millions, to one of 6.5, then of 5.1, and lastly to a deficit

(14) W.E. Moore, *Economic demography of Eastern and Southern Europe*, League of Nations, Geneva, 1945.

of 2.6 million workers. This shows the importance that the selection of the « normal » level, the term of reference, may have in modifying the results of such calculations! In all the four cases considered there is, however,

TABLE VIII

SURPLUS OR DEFICIT (—) OF THE ITALIAN RURAL POPULATION IN CONFORMITY WITH THE FOUR HYPOTHESES

(thousands)

Area	1st hypothesis	2nd hypothesis	3rd hypothesis	4th hypothesis
Northern Italy . .	4,039	2,752	1,231	– 1.133
Central Italy . .	1,845	426	853	– 1.643
Southern Italy . .	3,271	2,114	2,070	– 31
Islands	1,586	1,180	933	219
North . . .	5,884	3,178	2,084	– 2,776
South . . .	4,857	3,294	4,003	188
Italy . .	10,741	6,472	5,087	– 2,588

an excess of population in the South. In all four cases the excess of the rural population in the South is proportionately higher than that noted in the North, and is so even in absolute figures in the 2nd, and 4th hypotheses.

(d) « *Latent* » *unemployment.* — Another type of unemployment that should be considered is socalled « latent unemployment », which is in part a special sub-group of « hidden » unemployment. It consists mainly of women who, in periods when incomes are sufficient to satisfy minimum needs do not weigh on the labour market, but who look at once for a job, however modest, in periods of economic recession or stagnation. We have in Italy a large body of women in this condition, whose potential pressure on the labour market helps to keep down the level of wages. Let us suppose that for completely eliminating the « latent » female unemployment in Italy, the ratio of employed women to total active population should rise to 60% (15), thus leaving a margin of 21% as compared to the men. In this hypothesis, as the actual ratio is now about 30%, « latent » female unemployment would amount to some 5 million persons, of whom 3 million in the North and 2 million in the South. Our hypothesis would still leave some 8 million women free to attend to their homes, being about equal to the number of married women, employed or not.

(15) In Europe a percentage of 60% is obtained in Russia, Roumania and Bulgaria only.

IV - Conclusions.

10. — Our study allows us to draw the following conclusions:

A. — Referring « *registered* » unemployment:

(a) The principles followed in making the returns and the elaboration of the data on the number of unemployed registered with the Labour Exchanges, and the organisation of the central and local Labour Exchanges have undergone notable variations since the service was started in 1919. Therefore comparisons drawn on the unemployment situation are either unreliable or must be limited to the post-war years. More confidence can be placed in the data on ratios as between areas, sexes, etc.

(b) As compared to the figures for Italy as a whole, « registered » unemployment in the South has been growing since 1919. In the last five years this growth has persisted, whereas in North Italy there has been a considerable reduction as compared to 1946. The main cause of this is to be found in the high rate of natural increase and in the small number of emigrants.

(c) The rate of unemployment, *i.e.* the percentage of « registered » unemployed as compared to the labour force, is much higher in the South than in the North.

In the last twenty years, from 1931 to November 1951, the ratio of unemployed to employed in the South would appear to have risen from 7.7% to 17.5%, whereas it has fallen in the North from 14% to 10%.

(d) The ratio of unemployed women as compared to the total number of « registered » unemployed is higher in the North than in the South, both as a whole and in all the several branches of economic activity considered, and for the several groups of unemployed.

(e) It is not possible to compile statistics on the seasonal character of unemployment, classified by region, age, marital status.

B. — Referring to « *unregistered* » unemployment:

(a) Calculations place the number of « unoccupied » in the South around 1 million, equal to about 20% of the active population.

(b) « Under employment » in agriculture stands in Italy around 800/900 thousands persons (these figures do not take into account the unemployment of hired labourers).

(c) In Italy about 60% of the agricultural labourers, of whom there are about 2.5 million, suffer long periods of unemployment (in addition to the normal winter inactivity).

(d) It is reckoned that in Italy there are over 5 million women (« latent » unemployment), of which 2 millions in the South, willing to accept a job at the first opportunity that offers, who weigh on the labour market.

ANNEXED TABLES

PERSONS REGISTERED WITH LABOUR EXCHANGES — TABLE A

Districts	January 1951			January 1952		
	No.	of which females		No.	of which females	
		No.	% (a)		No.	% (a)
1	2	3	4	5	6	7
A) Absolute Figures						
Northern Italy	1,081,822	397,333	*36.7*	1,090,040	390,334	*35.8*
Central Italy	286,240	70,164	*24.5*	316,463	77,784	*24.6*
Southern Italy	544,842	131,168	*24.1*	607,470	149,401	*24.6*
Islands	202,616	27,455	*13.3*	234,010	33,236	*14.2*
North	1,368,062	467,497	*34.2*	1,406,503	468,118	*33.3*
South	751,458	158,623	*21.1*	841,480	182,637	*21.7*
Total	2,119,520	626,120	*29.5*	2,247,983	650,755	*28.9*
B) Percentages						
Northern Italy	*51.0*	*63.5*	—	*48.5*	*60.0*	—
Central Italy	*13.5*	*11.2*	—	*14.1*	*11.9*	—
Southern Italy	*25.7*	*20.9*	—	*27.0*	*23.0*	—
Islands	*9.8*	*4.4*	—	*10.4*	*5.1*	—
North	*64.5*	*74.7*	—	*62.6*	*71.9*	—
South	*35.5*	*25.3*	—	*37.4*	*28.1*	—
Total	*100.0*	*100.0*	—	*100.0*	*100.0*	—

(a) % on total.

PERSONS REGISTERED WITH LABOUR EXCHANGES, BY CLASSES OF UNEMPLOYMENT

TABLE B

Districts	January 1951								January 1952							
	I Class (a)		II Class (a)		III Class (a)		Total		I Class (a)		II Class (a)		III Class (a)		Total	
	Total	of which females	Total	of which females	Total	of which females	Total	of which females	Total	of which females	Total	of which females	Total	of which females	Total	of which females
A) Absolute Figures																
Northern Italy	705,508	203,585	341,134	187,578	35,180	6,170	1,081,822	397,333	688,420	186,873	364,424	196,317	37,196	7,144	1,090,040	390,334
Central Italy	185,058	30,270	85,766	38 711	15,416	1,183	286,240	70,164	197,461	32,766	103,388	43,607	15,614	1,411	316,463	77,784
Southern Italy	334,442	64,914	171,895	61,578	38,505	4,676	544,842	131,168	360,007	73,869	212,571	72,464	34,892	3,068	607,470	149,401
Islands	152,458	15,765	47,555	11,517	6,603	173	206,616	27,455	162,565	16,192	65,651	16,670	5,794	374	234,010	33,236
North	890,566	233,855	426,900	226,289	50,596	7,353	1,368,062	467,497	885,881	219,639	467,812	239,924	52,810	8,555	1,406,503	468,118
South	486,900	80,679	219,450	73,095	45,108	4,849	751,458	158,623	522,572	90,061	278,222	89,134	40,686	3,442	841,480	182,637
Total	1,377,466	314,534	646,350	299,384	95,704	12,202	2,119,520	626,120	1,408,453	309,700	746,034	329,058	93,496	11,997	2,247,983	650,755
B) Territorial Percentages																
Northern Italy	*51.2*	*64.7*	*52.8*	*62.7*	*36.8*	*50.6*	*51.0*	*63.5*	*48.9*	*60.3*	*48.8*	*59.7*	*39.8*	*59.5*	*48.5*	*60.0*
Central Italy	*13.5*	*9.6*	*13.2*	*12.9*	*16.1*	*9.7*	*13.5*	*11.2*	*14.0*	*10.6*	*13.9*	*13.2*	*16.7*	*11.8*	*14.1*	*11.9*
Southern Italy	*24.3*	*20.6*	*26.6*	*20.6*	*40.2*	*38.3*	*25.7*	*20.9*	*25.6*	*23.9*	*28.5*	*22.0*	*37.3*	*25.6*	*27.0*	*23.0*
Islands	*11.0*	*5.1*	*7.4*	*3.8*	*6.9*	*1.4*	*9.8*	*4.4*	*11.5*	*5.2*	*8.8*	*5.1*	*6.2*	*3.1*	*10.4*	*5.1*
North	*64.7*	*74.3*	*66.0*	*75.6*	*52.9*	*60.3*	*64.5*	*74.7*	*62.9*	*70.9*	*62.7*	*72.9*	*56.5*	*71.3*	*62.6*	*71.9*
South	*35.3*	*25.7*	*34.0*	*24.4*	*47.1*	*39.7*	*35.5*	*25.3*	*37.1*	*29.1*	*37.3*	*27.1*	*43.5*	*28.7*	*37.4*	*28.1*
Total	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*
C) Percentages by classes																
Northern Italy	*65.2*	*51.2*	*31.5*	*47.2*	*3.3*	*1.6*	*100.0*	*100.0*	*63.2*	*47.8*	*33.4*	*50.3*	*3.4*	*1.9*	*100.0*	*100.0*
Central Italy	*64.7*	*43.1*	*30.0*	*55.2*	*5.3*	*1.7*	*100.0*	*100.0*	*62.4*	*42.1*	*32.7*	*56.1*	*4.9*	*1.8*	*100.0*	*100.0*
Southern Italy	*61.4*	*49.5*	*31.5*	*46.9*	*7.1*	*3.6*	*100.0*	*100.0*	*59.3*	*49.4*	*35.0*	*48.5*	*5.7*	*2.1*	*100.0*	*100.0*
Islands	*73.8*	*57.4*	*23.0*	*41.9*	*3.2*	*0.7*	*100.0*	*100.0*	*69.5*	*48.7*	*28.1*	*50.2*	*2.4*	*1.1*	*100.0*	*100.0*
North	*65.1*	*50.0*	*31.2*	*48.4*	*3.7*	*1.6*	*100.0*	*100.0*	*63.0*	*46.9*	*33.3*	*51.3*	*3.7*	*1.8*	*100.0*	*100.0*
South	*64.8*	*50.9*	*29.2*	*46.1*	*6.0*	*3.0*	*100.0*	*100.0*	*62.1*	*49.3*	*33.1*	*48.8*	*4.8*	*1.9*	*100.0*	*100.0*
Total	*65.0*	*50.2*	*30,5*	*47.8*	*4.5*	*2.0*	*100.0*	*100.0*	*62.7*	*47.6*	*33.2*	*50.6*	*4.1*	*1.8*	*100.0*	*100.0*

(a) *Class I*: Unemployed workers previously employed. — *Class II*: People seeking a first job. — *Class III*: Pensioners seeking a job and unemployed workers seeking another occupation. (*See* Table VI, p. 80).

PERSONS REGISTERED WITH LABOUR EXCHANGES, BY BRANCH OF ACTIVITY

January 1951

TABLE C

Districts	Agriculture	Industry	Transports and Communications	Commerce	Credit and Insurance	Unspecified Workers	Employees	Total
A) Absolute Figures								
Northern Italy	178,999	555,593	9,820	30,246	373	266,454	40,337	1,081,822
Central Italy	28,769	155,652	3,897	6,914	59	78,924	12,025	286,240
Southern Italy	164,087	245,915	4,072	6,377	61	110,356	13,974	544,842
Islands	75,682	90,493	2,450	5,875	24	26,205	5,887	206,616
North	207,768	711,245	13,717	37,160	432	345,378	52,362	1,368,062
South	239,769	336,408	6,522	12,252	85	136,561	19,861	751,458
Total	447,537	1,047,653	20,239	49,412	517	481,939	72,223	2,119,520
B) Territorial Percentages								
Northern Italy	*40.0*	*53.0*	*48.5*	*61.2*	*72.2*	*55.3*	*55.9*	*51.0*
Central Italy	*6.4*	*14.9*	*19.3*	*14.0*	*11.4*	*16.4*	*16.6*	*13.5*
Southern Italy	*36.7*	*23.5*	*20.1*	*12.9*	*11.8*	*22.9*	*19.3*	*25.7*
Islands	*16.9*	*8.6*	*12.1*	*11.9*	*4.6*	*5.4*	*8.2*	*9.8*
North	*46.4*	*67.9*	*67.8*	*75.2*	*83.6*	*71.7*	*72.5*	*64.5*
South	*53.6*	*32.1*	*32.2*	*24.8*	*16.4*	*28.3*	*27.5*	*35.5*
Total	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*
C) Percentages by Occupational Groups								
Northern Italy	*16.55*	*51.36*	*0.91*	*2.80*	*0.03*	*24.63*	*3.72*	*100.00*
Central Italy	*10.05*	*54.38*	*1.36*	*2.42*	*0.02*	*27.57*	*4.20*	*100.00*
Southern Italy	*30.12*	*45.14*	*0.75*	*1.17*	*0.01*	*20.25*	*2,56*	*100.00*
Islands	*36.63*	*43.80*	*1.19*	*2.84*	*0.01*	*12.68*	*2.85*	*100.00*
North	*15.19*	*51.98*	*1.00*	*2.72*	*0.03*	*25.25*	*3.83*	*100.00*
South	*31,91*	*44.77*	*0.87*	*1.63*	*0.01*	*18.17*	*2.64*	*100.00*
Total	*21.12*	*49.43*	*0.95*	*2.33*	*0.02*	*22.74*	*3.41*	*100.00*

PERSONS REGISTERED WITH LABOUR EXCHANGES, BY BRANCH OF ACTIVITY

January 1952

TABLE D

Districts	Agricolture	Industry	Transports and Communications	Commerce	Unspecified Workers	Employees	Total
A) Absolute Figures							
Northern Italy	145,628	587,390	13,658	35,480	262,832	45,052	1,090,040
Central Italy	37,324	149,743	5,752	11,559	94,983	17,102	316,463
Southern Italy	179,786	242,488	5,792	10,467	151,451	17,486	607,470
Islands	81,286	99,510	3,124	8,566	32,957	8,567	234,010
North	182,952	737,133	19,410	47,039	357,815	62,154	1,406,503
South	261,072	341,998	8,916	19,033	184,408	26,053	841.480
Total	444,024	1,079,131	28,326	66,072	542,223	88,207	2,247,983
B) Territorial Percentages							
Northern Italy	*32.8*	*54.4*	*48.2*	*53.7*	*48.5*	*51.1*	*48.5*
Central Italy	*8.4*	*13.9*	*20.3*	*17.5*	*17.5*	*19.4*	*14.1*
Southern Italy	*40.5*	*22.5*	*20.5*	*15.8*	*27.9*	*19.8*	*27.0*
Islands	*18.3*	*9.2*	*11.0*	*13.0*	*6.1*	*9.7*	*10.4*
North	*41.2*	*68.3*	*68.5*	*71.2*	*66.0*	*70.5*	*62.6*
South	*58.8*	*31.7*	*31.5*	*28.8*	*34.0*	*29.5*	*37.4*
Total	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*
C) Percentages by Occupational Groups							
Northern Italy	*13.36*	*53.89*	*1.25*	*3.25*	*24.11*	*4.14*	*100.00*
Central Italy	*11.79*	*47.32*	*1.82*	*3.66*	*30.01*	*5.40*	*100.00*
Southern Italy	*29.60*	*39.92*	*0.95*	*1.72*	*24.93*	*2.88*	*100.00*
Islands	*34.74*	*42.53*	*1.33*	*3.66*	*14.08*	*3.66*	*100.00*
North	*13.01*	*52.41*	*1.38*	*3.34*	*25.44*	*4.42*	*100.00*
South	*31.03*	*40.64*	*1.06*	*2.26*	*21.91*	*3.10*	*100.00*
Total	*19.75*	*48.00*	*1.26*	*2.94*	*24.12*	*3.93*	*100.00*

The Indian Money Market

by

J. S. G. WILSON

In general terms, the Indian banking system may be divided into two main sectors: that which concerns itself with commercial banking (as that term is commonly understood in Western countries); and that which derives from indigenous banking practice, with a tradition going back many hundreds of years. It would be wrong to suppose that these two sectors are wholly unconnected with each other, but the links which exist are somewhat tenuous and complete integration into a unified system has yet to be achieved. Underlining this dichotomy is the restricted use made of the cheque. In any extensive sense, it is still true to say that the banking habit is relatively undeveloped and the use of banks tends to be confined to the larger commercial centres. Banking in its sophisticated forms is very much an urban institution in India, though even in the cities and towns much business is transacted by indigenous institutions which are not banks in the accepted sense of the word. At the same time, the cheque as an instrument of commerce is supplemented in a very important way by indigenous credit arrangements. Even so, for much of the rural population, which is largely illiterate, organised banking arrangements scarcely exist. In consequence — and looking at the country as a whole — we find, first, that the use made of bank credit is relatively restricted; second, that the majority of transactions involve the direct employment of notes and coin; and, third, and even more obviously beyond the influence of banking institutions, that many transactions are still effected on a barter basis. Super-imposed on all this is the hoarding habit, which appears to provide an almost bottomless pit for the absorption of gold and silver. This is the background against which to view the organisation of banking in India.

I

At the heart of the system is, of course, the Reserve Bank of India, first established in 1934 and nationalized in 1948. The structure of the Bank was largely modelled on that of the Bank of England. It was divided into two departments — an Issue Department and a Banking Department — to be kept separate and wholly distinct. It was accorded the traditional powers of a central bank, though there were certain limitations on the types of securities, which were eligible for purchase and rediscount. It was also to publish from time to time a « standard rate » at which it was prepared to buy or re-discount bills of exchange or other commercial paper eligible for purchase under the Act. In addition, the Bank could resort to what was called its « power of direct discount », in cases of « special urgency ». This enabled it to relax the statutory eligibility rules — if the occasion demanded it — in so far as these required it to deal direct with specified bodies only (*e.g.* the scheduled banks) and to offer help direct to those in need of it. As well as the influence the Bank might exert on the cash base through the medium of open market operations, the maintenance of minimum deposits with the Reserve Bank was ensured by the requirement that the scheduled banks must keep with the central bank deposits which should be not less than 5 per cent of demand and 2 per cent of time liabilities. In summary, the Reserve Bank was to serve as the Government's

banker; it was accorded the sole right to issue notes and was required to manage the note issue; it was « to regulate ... the keeping of (banking) reserves with a view to securing monetary stability ... and generally to operate the currency and credit system of the country to its advantage »; and it was under an obligation to buy and sell overseas exchange for the purpose of maintaining the external value of the rupee.

Grouped around the Reserve Bank and forming the body of the « central money market », we have the commercial banks. These may be divided into two main groups — the « exchange banks » and the Indian joint stock banks (both « scheduled » and « non-scheduled »). The exchange banks (of which there are now fifteen operating in the country) constitute the oldest and most homogeneous group of banks in India. They include such famous names as the Chartered Bank of India, Australia and China; the National Bank of India; Lloyds Bank; the Mercantile Bank of India; and the Hongkong and Shanghai Banking Corporation. These banks have been foreign (*i.e.* non-Indian) in origin and their methods are primarily derived from British and particularly Scottish experience. At times, and in certain quarters, they have been regarded with some suspicion, but their strength in periods of crisis appears more recently to have created a new respect. Every confidence is now placed in their ability and willingness to meet fully their responsibilities to the community. They are not, of course, confined in their activities to India alone, but this country (with Pakistan) is one of their most important spheres of operation. Within India, the offices of these banks are concentrated mainly in Bombay and Calcutta, with minor groupings in Delhi, Madras, and Kanpur. The exchange banks specialise in the finance of foreign trade, in which they still have a near-monopoly of the better-class business (1). They also play some part in the financing of internal trade, in order to assist the movement of goods between up-country centres and the ports, but their general banking business is related as far as possible to the auxiliary financing of the export and import trades. Of all the « Indian » banks, as the non-exchange commercial banks are called, the Imperial Bank of India is the largest and most powerful. It was constituted in 1921 as a semi-public institution by amalgamating the three Presidency banks in Bombay, Calcutta, and Madras. It fulfilled the functions of an interim central bank until 1935, when the Reserve Bank began its operations. It has a network of branches and pay offices covering every town of commercial importance in India (besides continuing important services in Pakistan). As agent of the Reserve Bank of India, it still retains part of its former official functions. Since 1934, when the Reserve Bank was established, it has conducted a general banking and foreign exchange business similar to the other commercial banks, and it is still an important lender to them in the local money markets of Bombay and Calcutta. Apart from the Imperial Bank (which is in a special category), the biggest of the Indian commercial banks is undoubtedly the Central Bank of India. It is followed in order of size by the Bank of India, the Punjab National Bank, the Bank of Baroda, the United Commercial Bank, and the Allahabad Bank (now a subsidiary of the Chartered Bank). These are followed by somewhat smaller but still large banks, though immediately below them will be found banks which are almost as big and there is, indeed, an almost uninterrupted gradation downwards to banks which are quite small. To be « scheduled », a bank must have a paid-up capital and reserves of at least Rs. 5 lakhs (approx. £stg. 7,500), but this scarcely provides the hallmark of security. All the larger banks have a network of branches, but these are somewhat unevenly distributed, with a heavy concentration in the larger centres. As many as 800 (out of a total of about 3,000) were situated in thirteen principal cities and towns, and this has led to much unnecessary overlapping and to a good deal of unhealthy competition both for deposits and advances.

The activities of the commercial banks follow a fairly uniform pattern. All the larger

(1) Latterly, however, the exchange business of the Indian joint stock banks has been expanding and they may in time present a more serious challenge to the exchange banks. Rates and terms are laid down by the Exchange Banks' Association, which the Indian banks are obliged to follow, though they are not members.

banks accept deposits both on current account and as fixed (or time) deposits (though some small banks accept fixed deposits only and do not hold current accounts at all). Most banks keep savings bank accounts (subject to limited drawings by cheque), the exceptions being the majority of the exchange banks. Usually, a nominal rate of interest is paid on such current accounts as to maintain the required minimum balance. Fixed deposit rates vary with the term for which money is fixed. Accommodation is made available by means of loans, « cash credits », overdrafts, or the discount of bills. Loans are made in fixed amounts and are repayable in arranged instalments, while overdrafts are a more elastic type of lending. In the latter case, a « limit » is agreed up to which the account may be overdrawn and, although the overdraft is technically repayable on demand, it may be allowed to run on indefinitely. The « cash credit » is really a special form of overdraft. It is an advance made in overdraft form to finance the holding of stocks. Though theoretically repayable on demand, in practice the cash credit is allowed to run for 6 or 12 months. The object is to provide working capital on a seasonal basis and it is, in effect, an advance made against a pledge or hypothecation of goods. In all cases, a certain margin of security is, of course, required. « Joint and several loans » — another form of lending — are a special feature of Indian banking. They are demand loans, for which security is taken on two signatures in promissory note form, though again such accommodation may run on for a period of months. Elasticity can be provided by successive renewals. All « joint and several borrowers » are restricted by « limits » to the accommodation they can seek in this way. Another specialized form of lending is found in Calcutta, where the banks normally provide finance to the jute industry against « jute delivery orders ». The business is subject to a monthly settlement, though orders which are retired may be replaced immediately by new ones. The so-called «demand hundi » is also treated as an « advance », though the document is drawn in bill of exchange form. They are used primarily to finance trade between up-country centres and the ports, the usual procedure being to draw sight bills for this purpose and then to secure cash credit accommodation to cover the holding of stocks on arrival. Usually, there are no supporting documents, though (in some cases) railway receipts or a bill of lading may be attached. Bills are used primarily by the exchange banks as a means of financing exports and imports. These bills are discountable in London and do not come on to the Indian money market. In addition to the London bill (which caters for overseas commerce), a good deal of internal trade is financed by means of the usance « hundi » — the true « hundi ». This is made out in promissory note form, payable so many days after date. Normally, days of grace are allowed. A « hundi » will be made by a small Indian businessman in favour of a Multani banker, who discounts it (at a rate up to 9 per cent in Bombay and Calcutta) and thereby becomes the lender. Ordinarily, no value will have been received and the transaction will be purely of an « accommodation » character. Usually, the Multani banker then endorses the hundi and, by arrangement through a hundi broker, re-discounts it with a scheduled bank at a rate of 3 to 4 per cent per annum. The Multani banker, or « shroff », has limits (often with several banks) up to which he may expect his hundis to be discounted. It is in this way that the Multani banker acts as an intermediary between the joint stock banks and the small trader, about whose creditworthiness the banks will not normally have any detailed information. Only four or five of the scheduled banks discount the true hundi and of these the Imperial Bank does by a far the largest business, with the Bank of India and the Central Bank of India doing the bulk of the remainder.

Bills discounted now represent no more than 3 to 4 per cent of total accommodation granted by the banks, due (it is said) to the less expensive character and more convenient form of borrowing by way of overdraft or cash credit. The bulk of the advance business — 68 per cent — is done by the Indian scheduled banks. The exchange banks are responsible for 25 per cent and the non-scheduled banks for the remainder. Scheduled bank advances and bills discounted represent between 45 and 50 per cent of total deposits which compares with 55 to 60 per cent for investments. (For non-

scheduled banks, the advance-deposit ratio approximates to 75 per cent and the investment ratio is slightly over 30 per cent). Nearly half the total of scheduled bank advances are for commercial purposes and about one-third goes to industry. Production credit for agriculture is small. Personal and professional advances constitute about one-tenth of the total, though portions of these are used for business. Of the aggregate advances of all commercial banks, something like 78 per cent are secured, the most popular form of security being bullion, including gold and silver ornaments. About a quarter of unsecured advances are made against « clean » bills (*i.e.* no documents attached) and, in part, represent the finance of trade. Advances of a highly liquid nature, such as those against merchandise and documentary bills constitute nearly half of total advances, those against Government securities and readily marketable shares nearly a quarter, and those against real estate 6 per cent. The cotton industry is the largest single industrial borrower, and, together with jute and sugar, absorbs half the industrial finance provided by the banks. The credit extended to basic industries, such as engineering, coal, cement, and public utilities, appears to be quite small.

Among the non-scheduled banks, loans for consumption predominate. The amounts advanced to « personal » borrowers and against the security of bullion are relatively much higher than in the case of scheduled banks. Advances against merchandise amount to about 21 per cent of total advances, as against 42 per cent for scheduled banks. Advances against real estate are nearly four times those of the scheduled banks and this is particularly true of the smaller non-scheduled banks.

II

As has been indicated, joint stock banking in India is concerned primarily with an urban demand, though even in the cities and towns there also exist indigenous institutions, which cater for the many small manufacturers and traders. These may borrow by way of mortgage or by means of hundis. A good deal of the indigenous banker's business, however, derives from up-country trade. Indeed, it has been estimated that the indigenous bankers finance nearly 90 per cent of India's internal trade. Nevertheless, it is in the rural areas that the indigenous institutions find most scope for their activities. India is still primarily an agricultural country and her social life is therefore based on her village communities. Hence, the importance of indigenous institutions. The latter may be roughly divided into the indigenous bankers and the moneylenders, but the two groups merge one into the other. The banker, however, generally supplements his resources by accepting deposits from the public, while the moneylender trades primarily on his own capital, though he may raise additional funds by borrowing from other institutional lenders. Generally speaking, the indigenous banker combines banking with other forms of business. They range in size from firms which are little more than petty moneylenders to substantial « shroffs », who carry on a large and specialized business, which at times exceeds that of some of the scheduled banks. It has not been their practice to publish balance sheets, and they are disinclined to introduce modern methods into their business, which have been carried on for centuries in accordance with an established tradition. Indeed, those who undertake this type of business will usually be found to belong to certain castes or communities, such as the Multanis or Marwaris.

The Multanis work mainly with their own resources. Their headquarters was formerly in Shikapur (now in Pakistan), but they have now spread all over India, concentrating their activities in the cities and towns. They borrow from certain of the joint stock banks, which they regard as the appropriate source of their marginal finance. In addition, the Bombay and Ahmedabad shroffs lend money amongst themselves at comparatively low rates of interest (4½ to 6 per cent). The Multani restricts himself to his banking business (primarily a hundi business) and regards himself as prohibited by convention from accepting the risks of trade, which would only serve to multiply his lending risks. The Marwari, on the other hand, is not so inhibited. He is a merchant banker. He deals as a merchant, lends money, and also does a hundi business. Usually, he

lends against goods by way of pledge supported by a demand promissory note or usance hundi. He may even accept a mortgage, either as primary or collateral security. The Marwari bankers prefer to rely on funds from within their own community, but they also accept deposits. Furthermore, the popularity in both Bombay and Calcutta of the « Marwari loan » (as borrowing from the banks on a joint and several promissory note is sometimes called) suggests a growing dependence on bank finance to cover the marginal needs of the busy season.

The fact that indigenous bankers are drawn from banking castes or communities accounts for the influence of tradition on their methods. The indigenous banker is brought up to his calling. Generally speaking, he receives no special banking education. He draws on the experience of the past, both that of his firm and latterly his own. From the point of view of the borrower his chief virtue is the absence of formalities and delays. Besides this informality, the indigenous banker is accessible. His lending policy is flexible and, though he may appear to take more risks than his joint stock counterpart, his closer personal knowledge of his customer to a large extent offers a measure of protection not available to larger institutions. The joint stock banks, on the other hand, investigate the nature of the security much more closely and, in any case, their managers cannot have the same margin of discretion as the small man.

As a general rule, it is not practicable for the indigenous banker to establish direct business relations with the agriculturalist, though indirectly he may assist in the finance of agriculture by making funds available to local « sowkars » (or moneylenders). Also, by lending to grain merchants, indirect help is given to agriculture by financing the trade derived from it. But, for many years, agricultural credit facilities were provided almost entirely by the village « sowkar » or « bania » (*i.e.* by local moneylenders). The Indian peasant, or « ryot », was his chief customer. These small farmers had little credit to offer and no joint stock bank, even if it had a branch nearby, would be willing to lend. Where liquidity is the main consideration, the small landholder with his crop only ready for harvest after about eight months could scarcely expect to borrow from the commercial banks. In any event, a branch of a joint stock bank is a rare phenomenon in rural India. Hence, the moneylender had for long been an indispensable adjunct to village life. But it became a matter for general comment that, although most accommodating in providing finance for all purposes (marriage and funeral loans were probably the most important of the non-productive types of borrowing), relations between the moneylender and the villager steadily deteriorated over the years. Formerly, the moneylender was restrained by various conventions and by public opinion, but with the introduction of Western legal arrangements the tendency was for these restraints to weaken and for the letter of the law to be enforced. In this respect, the appalling illiteracy of the peasant played right into the hands of the man on whom he so vitally depended for his finance. However, the balance of blame was by no means all on one side. It was not unkown, for instance, for a ryot to hypothecate his crop to one person and then quietly to sell it to another. The moneylender retaliated by taking bonds for larger amounts than had actually been lent (and there were many other malpractices) and he regarded this as merely a regulation of his dealings such that he indemnified himself against risk of loss. It is true that he charged usurious rates of interest, but there were often wide discrepancies between the rate of interest stipulated in the contract and that which he was finally able to collect.

The methods of business of the urban moneylender were almost the same as those of the man operating in the villages, except that the urban moneylender often advanced on the basis of hundis and his operations were on a larger scale. He, too, was accustomed to combine the business of moneylending with ordinary trading.

Over a period of years, various attempts were made to regulate the activities of the professional moneylenders and to restrict the worst abuses. But ignorance of the law, illiteracy, and the ease with which loans could be had from this source rendered much of this legislation inoperative. Latterly, however, the legislative requirements have been made much more

stringent and, even more important, the nature of these provisions has become more widely known. The effect has been the virtual disappearance of the professional moneylender from many areas. Taking into account the risks involved, it has no longer seemed worth his while to operate under the new provisions. He has therefore chosen to change his calling and to become a merchant or trader, though probably he still carries on an illicit moneylending business on a restricted scale.

The decline in the importance of the professional moneylender has had two effects. First, a vacuum has been created which existing institutions have not been able to fill and there is in consequence a great dearth of credit in the villages. It has been estimated that the co-operatives, for example, only cater for from 5 to 10 per cent of the financial requirements of the rural areas and, even where their services are available, they are not nearly so ready to lend. They investigate the ryot's affairs more closely than did the sowkar; they require security and adequate arrangements for repayment, whereas the sowkar used to lend with no questions asked and repayment was often not insisted upon, provided the interest was duly met. As a result, the villager today finds borrowing difficult and suffers much inconvenience. Second, and because of the villager's insistent demand for accommodation, the non-professional moneylending groups, which have always operated to some extent, are increasing in importance. Thus, it is not uncommon — even in villages where co-operatives exist — for the larger landowners and wealthier ryots to lend to the poorer members of their community, frequently at high rates of interest which the borrowers are quite prepared to pay.

As has been mentioned, there are in existence certain links between the commercial banks and the indigenous institutions, but so far as the smaller indigenous bankers and moneylenders are concerned they are still very indirect. The Reserve Bank has already attemped to bring the indigenous bankers into more direct contact with the central money market, though with somewhat indifferent success. For example, in 1937, it offered the indigenous bankers facilities of direct discount and advances against Government securities, as well as remittance concessions, subject to their shedding their non-banking business, maintaining proper books of account (which would be open to the Bank for inspection), and the filing of periodic statements similar to those supplied by the scheduled banks. But the indigenous bankers were not prepared to accept these conditions and preferred to continue the old arrangements whereby they received accommodation from the Imperial Bank and other scheduled banks. Nevertheless, the Reserve Bank left its offer open and remained ready to take up the matter again, if the indigenous bankers did decide to conform with its conditions or could suggest any other practicable alternative. More recently (1951), the Governor of the Reserve Bank took the opportunity of addressing a conference of indigenous bankers meeting in Bombay in order to re-state the Reserve Bank's views and there are signs that in the near future it will make an even more determined effort to secure greater integration. As a preliminary step, it has embarked upon an India-wide survey of indigenous credit arrangements and it is hoped on this basis eventually to modify considerably the existing arrangements.

III

Supplementing the work of the indigenous institutions are the several species of co-operative banks. These provide, first, one of the two main links (the other being the endorsing shroff) between the sophisticated institutions of the central money market and the credit needs of both the rural village and the smaller artisans of the towns. Attempts have been made in recent years — by formalizing relations between the provincial co-operative banks and the Reserve Bank — to strengthen this link, but the integration is not yet by any means complete. Second, it was intended that the primary co-operative societies should provide credit facilities in direct competition with and as an alternative to the moneylender.

The main function of the agricultural co-operative societies has been to supply rural credit and to educate the farmer in the practices of co-operation and thrift. More recently,

there has been a shift of emphasis to the multi-purpose potentialities of co-operation, such as the development of marketing and procurement facilities. From the depression of the early thirties to the outbreak of war in 1939, the progress of the movement was rather discouraging, when compared with the pre-depression period. During the war, however, the position improved, as was reflected in the increase of working capital from Rs. 106 crores in 1938-39 to nearly Rs. 164 crores in 1945-46 (Rs. 1 crore equals £stg. 750,000 approximately). But this increase in working capital, substantial though it appeared to be, was not in proportion to the war-time inflation, due perhaps to the societies' own disinclination to augment funds unduly at a time when the demands of borrowers were decreasing. Another not unimportant reason may well have been that, once the farmer cleared his more burdensome debts out of his increased war-time earnings he lacked the incentive to save further and soon lapsed into his traditional habits of improvidence. As a result a unique opportunity was lost in not augmenting working capital by an expansion of members' deposits. Since the war, there has been some increase in advances to agriculture due substantially to the rise in working costs and the demand for improvement loans. Indeed, the Rural Banking Enquiry Committee, which reported in 1950, referred to the experience of considerable financial stringency in rural areas and stated that « the co-operative institutions are now faced with large demands for funds which they are unable to provide ». Further, as a result of the compulsory scaling down of agricultural debt and the fixing of instalments in which the adjusted debts are to be repaid, «the normal sources of finance have dried up » and the problem of making adequate provision for the needs of the adjusted debtors and other creditworthy agriculturalists has become urgent.

The legislative basis for the development of co-operative banking was provided by the various provincial Co-operative Societies Acts, dating from 1904. The foundations of the system are the village or « primary » societies, which are generally linked with « central banks ». These, in turn, are affiliated with the provincial banks. A village credit society can be formed by the association of a minimum of 10 members, who then apply for registration. Where the majority are agriculturalists and the object is « the creation of funds to be lent to its members », the liability of members is unlimited. The internal resources are derived from entrance fees, members' deposits, and surplus assets held in reserve. External assistance is obtained from « central » and provincial banks, and from the Government. Accommodation is also available, under certain conditions, from the Reserve Bank of India. These funds are then lent out to members at moderate rates for current and short-term purposes. The uses to which loans are put should be strictly productive, but loans for non-productive purposes, which are « necessary and unavoidable » (*e.g.* marriage loans) may also be granted from time to time (though with due care) to prevent a member seeking accommodation elsewhere at usurious rates of interest. The period of repayment depends, among other things, upon the purpose for which a loan has been granted and may vary from three months to three years.

The structure of the co-operative system is federal in character. There are good reasons for this form of organisation. A number of scattered village banks working independently could only achieve rather limited results. More capital was required than could be raised from local sources and some form of federation was therefore seen to be necessary, not only for the purpose of securing access to larger amounts of capital but also in order to spread risks. With this object in mind, the village banks were grouped under « central banks », which were better placed for the attraction of deposits from the public. They covered a larger area and were able to contact urban dwellers with whom the banking habit was more developed. Furthermore, the liability of the central banks was limited and the management was in more capable hands. It was natural therefore that they should attract deposits more easily from the middle classes. The village societies were, of course, members of the central banks, but the bulk of the latter's deposits came from private individuals, who placed money on deposit for fixed periods. These

moneys were then usually lent short-term to the primary societies, though latterly some of the central banks have undertaken a commercial banking business as well, as a means of employing surplus funds. However, commercial banking strictly lies outside the sphere of the co-operatives and, while certain authorities are in favour of its extension, it is frowned on by the Reserve Bank itself. Lending funds to village societies is regarded as the main function. However, such lending might lead to embarrassing situations. Money might have been lent to one village and would not therefore be available to another. In these circumstances, co-ordination of provincial finance and supervision of the central banks themselves became necessary, if money was to be obtained on reasonable terms. This co-ordination was supplied by what were called provincial or « apex » banks. (In districts where there were no « central banks », a provincial co-operative bank would provide the necessary facilities direct to the village societies). In this way, a federal structure was provided, though it was not always availed of.

An attempt to meet the long-term requirements of agriculturalists has also been made by establishing land mortgage banks, but such banks are few in number and of comparatively small resources, except in Madras.

In addition, there are non-agricultural societies called « urban » banks. These cater for the needs of small traders, artisans, their employees, and Government servants. This branch of the movement is concerned with a much smaller population than the agricultural societies, but from the point of view of working capital and the amount of business turnover it has definitely reached larger proportions.

More success has been had with the attempt to link the co-operative banks to the central money market than attended the Reserve Bank's efforts to bring the indigenous bankers into closer contact. Thus, in January, 1942, the Reserve Bank propounded a scheme for extending financial accommodation to the co-operative central banks through the provincial co-operative banks, for the purpose of financing seasonal agricultural operations, or the marketing of crops, at special rates of interest. Under this scheme, it was proposed to grant a rebate of up to 1 per cent to provincial co-operative banks re-discounting agricultural bills with the Reserve Bank, provided the benefit of the rebate was passed on to agriculturalists. Later, as a special case and on an experimental basis, this rebate was raised to 1½ per cent. This was in addition to the existing arrangements under which accommodation was granted to provincial co-operative banks against Government securities. At first, very few applications were received, but gradually the system gained in popularity and the Bank was approached with increasing frequency. During the four years ended June, 1947, the provincial co-operative banks drew only Rs. 3.25 lakhs from the Reserve Bank. In the year ending June, 1948, the Bank sanctioned credit limits to the extent of Rs. 67.70 lakhs and for the following year Rs. 180.25 lakhs, and applications were much heavier than those actually granted. This practice has now become an established part of agricultural finance and, besides making cheaper credit available to the co-operatives and their clients, it has had the effect of linking the co-operative banks much more directly to the central money market and has assisted in the development of a more unified system.

IV

So far, the discussion of the structure of Indian banking has been in terms of its two main sectors — on the one hand, the commercial banks, and on the other, the indigenous and co-operative institutions. Little has been said about the relations between the two. In certain respects, these two sectors are relatively distinct, but there is, of course, some sort of connection between the several types of activity described and these links have been forged most obviously in the money markets of India's main commercial and financial centres. In this connection, it is sufficient to concentrate on the financial organisation of the two main centres — Bombay and Calcutta. Calcutta is still by far the larger, but Bombay has grown steadily in importance. Both are centres of industry and commerce, with developed stock exchanges. Both are major ports. Bombay possesses two leading markets in bul-

lion and cotton, while Calcutta deals in considerable quantities of jute. Madras is much less highly developed than the other two and tends to follow the lead of Calcutta, though it also has connections with Bombay. Banking in Madras is rather « provincial » by comparison with the main money markets. Interest rates are rather higher and less competitive. The call money market is scarcely a true market and inter-bank lending is arranged by direct contact. Nor is Madras a true « centre », since much of its business is done on an agency or branch basis for firms in Bombay and Calcutta. The volume of transactions does not permit of the same degree of specialisation as we find in the two more developed markets.

In essence, a money market is a place where the borrowers and lenders of short-term funds are brought together. It is usual to think of the Indian money market as being « undeveloped ». This may well be true, but it is wrong to ascribe this lack of development mainly to the absence of a discount market. A money market must be a product of its environment and simply because certain markets have been built up on the basis of particular classes of business is no reason for believing that all money markets must follow the same pattern. Even in the absence of a discount market, there may still be in evidence a system of organised relationships and a specialisation of function, similar to — though not identical with — those characteristic of money markets elsewhere. Indeed, it would seem that the weakness of Indian market arrangements lies in the looseness of its arrangements and its lack of integration rather than in the absence of particular specialisms.

The money markets of Bombay and Calcutta may be divided into two main sectors — along the lines of our earlier analysis. On the one hand, we have the « central money market », which (apart from the Reserve Bank) includes the exchange banks, the Imperial Bank, and the other Indian commercial banks; and, on the other, we have the indigenous market, which consists of a group of bazaar markets, each with different business practices and a different structure of rates. Within both these two main divisions, quite a high degree of specialisation has developed, including some provision of facilities for the flow of funds between them. The chief weakness lies in the links between the main sectors and, until these have been considerably strengthened, further integration will be difficult.

The types of business undertaken by the commercial banks have already been described, but it is appropriate to consider further the extent to which markets may be said to exist for call money and bills. The call money market is restricted almost entirely to dealings between banks, though other institutions and even individuals sometimes come into the market as lenders. This market is fairly active in Bombay, rather less so in Calcutta, and in Madras scarcely exists at all on an organised basis. In all three centres, the exchange banks are the chief borrowers, because of the highly seasonal nature of their business. Moreover, they are accustomed to work with a comparatively small cash base and this means that they may often be in need of funds for a day or so (*e.g.* when bills offering exceed bill maturities). Temporary stringencies of this kind are therefore tided over by borrowing money at call or short notice. In addition, such borrowings are the means of mobilising funds and employing economically such money as is available at the height of the busy season. Thus, in a very real sense, the exchange banks lie at the centre of the money market in India. Nevertheless, some of the Indian banks are also known to borrow in this market. Normally, they maintain fairly large cash reserves and are not in need of call money, but « window-dressing » is common and they may therefore go into the market for this purpose. In addition, it is thought that the statutory provision for the maintenance of minimum balances with the Reserve Bank has served to increase the periodic demand for call money in recent years. Inter-bank call money is usually arranged through brokers, but temporary funds may be obtained by approaching other banks directly. Very few banks — mostly the exchange banks — can obtain « clean » call money (*i.e.* without collateral security) and, where money is lent against Government securities or Treasury bills, the transaction becomes in effect a collateral loan. Obviously, the rate for inter-bank call money will vary with the state of the market and be higher in the

busy season than when business is slack. Thus, there tends to be a decline in demand (and in rates) in May or June, with a rise again in November or December. The influence of seasonal demand is paramount, but short-term factors may result in day-to-day fluctuations. Thus, heavy Treasury bill maturities may cause funds to be in surplus for a day or so and depress the rate, or a heavy demand for funds to finance speculative dealings on the stock exchange, or the bullion or commodity markets, may drive the rate up. In the main centres, therefore, the call money market is both developed and sensitive to changes in the conditions of overall liquidity.

On the other hand, the bill market, as it has existed for many years, has been a much more dependent phenomenon. All the principal banks in India and, in particular, the exchange banks, discount approved bills and there is a degree of specialisation in the types of bills dealt in, but, until the recent experiment (described below), there was no true market in India for further dealings in these bills. Either bills discounted were carried in bank portfolios until maturity, or — as with export bills — they were rediscounted by the exchange banks in the London market, which procedure served the interests of economy. Rediscount facilities existed both at the Imperial Bank (which, for many years and even after the establishment of the Reserve Bank, provided the bulk of rediscount facilities, since its rates were lower than those available at the central bank) and at the Reserve Bank, but this was more in the nature of last resort accommodation, with the Imperial Bank serving as a kind of « intermediate » lender of last resort. The market was therefore « dependent » in two senses: (a) on London; and (b) on a direct relationship with the lenders of last resort. These arrangements were not without merit, insofar as they resulted in economies which would not otherwise have been available under Indian conditions. There is, for example, really no very strong case for the establishment of discount houses on the London model. The difficulties which arose were due rather to the somewhat narrow criteria on which approval for rediscounting was based and the remedy has therefore been sought in widening the range of eligibility.

Over recent years, the scheduled banks have normally provided themselves with additional funds for meeting their seasonal requirements either by a sale of securities to the Reserve Bank, or by borrowing from the Reserve Bank against Government securities. This system had obvious limitations and the Reserve Bank therefore decided (in January, 1952) to « create » a bill market. This had been in contemplation for some time and the experimental scheme was finally evolved in consultation with representative bankers in Bombay and Calcutta. The Reserve Bank was already permitted under its Act to make advances to scheduled banks against the security of usance promissory notes, or bills drawn on and payable in India and arising out of bona fide commercial or trade transactions bearing two or more good signatures, one of which had to be that of a scheduled bank, and maturing within ninety days from the date of the advance. Under the new scheme, advances will be granted to scheduled banks in the form of demand loans on the execution of demand promissory notes supported by usance promissory notes taken from bank customers. For this purpose, it will be necessary for the scheduled banks to convert at least a portion of the demand promissory notes obtained by them from their customers in respect of loans, overdrafts, or cash credits into usance promissory notes maturing within ninety days. It was proposed that advances by way of demand loans against the security of eligible bills would be made at the offices of the Reserve Bank in Bombay, Calcutta, Delhi, Madras, and Kanpur in respect of advances granted by scheduled banks anywhere in India. But, before extending credit, the Reserve Bank would take into account not only the nature of the security offered, but also the manner in which the business of the bank concerned was being conducted, and the Reserve Bank might refuse to accept the bills of any particular scheduled bank without assigning a reason. In order to encourage the rapid development of such a bill market, it was proposed that these advances should be made at a rate ½ per cent below Bank rate, though naturally the Reserve Bank reserves to itself

the right to raise the rate at its discretion. Bank rate is now 3½ per cent (having been raised from 3 per cent last November). The attractiveness of the new arrangements is underlined by the competitive nature of the Reserve Bank's present offer, as compared with the terms now available from the Imperial Bank, whose call rate for loans to scheduled banks against Government securities is now 3½ per cent for loans above Rs. 5 lakhs (this is the rate which most nearly corresponds to Bank rate), while its hundi rate (*i.e.* the rate at which it discounts first class three months bills) is now — at 4½ per cent — one per cent higher than Bank rate. As a further inducement to banks to help create a bill market, half the cost of the stamp duty incurred in converting demand bills into time bills will be borne by the Reserve Bank. As the main object of these proposed advances is to relieve seasonal stringency, the minimum limit for an advance which a bank may take from the Reserve Bank at any one time has been provisionally fixed at Rs. 25 lakhs. Individual bills tendered by scheduled banks to the Reserve Bank for similar advances must be not less than Rs. 1 lakh. In the initial stages, it was foreseen that there might be some delay in sanctioning advances on the new basis, because the Reserve Bank would have to make adequate enquiries in order to safeguard its position. If, however, a scheduled bank required an immediate advance, it could still get it against Government securities at the Bank rate, pending the completion of the enquiries. It was hoped at the time this scheme was introduced that with greater experience in its working it would be possible to simplify this procedure. It is, of course, too early as yet to comment usefully on the manner in which the scheme is working out.

Treasury bills deserve separate mention. These are short-term Government securities, issued for meeting Government requirements for supplementary finance, usually with a currency of three months being rediscountable with the Reserve Bank and generally issued during the slack season, they provide an ideal form of investment for the surplus funds of the banks. Government of India Treasury bills, which constitute the bulk of those available, are issued weekly by public tender through the Reserve Bank. In addition, « intermediate » Treasury bills are sold from time to time, generally to State governments which have surplus funds. Tenders are confined for the most part to a few large banks, the Imperial Bank taking up something like 40 per cent. Sometimes, the Reserve Bank may have to intervene itself to ensure a successful placement. Private individuals and institutions other than banks rarely tender for bills on their own account, preferring to purchase Treasury bills through their bankers. But many of the smaller banks do not hold Treasury bills, because they are accustomed to attract deposits at relatively high rates of interest and they are therefore obliged to invest even their temporarily surplus funds in longer-dated securities which offer a higher return. In addition to Treasury bills, the Government now obtains a considerable amount of money from the banks on the basis of Treasury Deposit Receipts, which have currencies of 6, 9, and 12 months.

Business done by way of rediscounting hundis has already been described and it is sufficient to recall here that approved shroffs have limits at certain of the larger banks for the provision of this form of accommodation and that it is the endorsing shroff who provides the link between the central money market and the indigenous markets (described below). The link is, indeed, somewhat tenuous and it is here that the lack of integration which is the chief characteristic of money markets in India is most in evidence. Only the better class of hundi is taken to the banks and the relation of this rate of rediscount with those charged in the bazaar markets proper is somewhat indirect.

No account of the money market structure would be complete without a passing reference to the stockbrokers. Both in Bombay and Calcutta, these constitute one of the most important classes of borrowers. Their marginal finance is derived by way of overdraft accommodation from the banks against the security of stocks and shares under blank transfer deeds. Advances are permitted only up to a certain percentage of the value of the securities deposited and, in recent years, these requirements have had to be made much more strin-

gent in order to curb the tendency to speculate. In the past, some of the less cautious banks have incurred heavy losses by becoming over-extended in this direction.

Since the degree of integration has been taken as our chief criterion of the extent of development of the Indian money market, it is appropriate at this stage to direct our attention to those specialists who maintain contact between the several parts of the market. These are the various kinds of brokers. The most general type is the « finance broker », who may combine exchange, deposit, and share broking. It is more common, however, especially in Bombay, for exchange and deposit broking to be in the hands of specialists. Deposit broking is an interesting institution. Inter-bank lending, for example, is arranged by these brokers, and « house money » (surplus cash available from business houses and private individuals of standing) is placed with the banks which (as borrowers) pay the brokerage. Even fixed or time deposits may be made through the agency of a deposit broker. Again, there are instances of recourse to a broker in the lending field. Thus, the renewal of " joint and several loans " made by the banks to merchants may be arranged through a broker. The bank may lack the special knowledge of a customer's current position to deal direct and may therefore depend in part upon the specialist advice of its broker. Where necessary, it may use more than one and there are many instances of a bank being able to contract out of losses as a result of a timely hint from contacts such as these. Not only do these brokers serve to bring the two sides of the market together, but they help to keep it healthy. Much the same facilities exist for the rediscount of hundis. When the Multani wishes to rediscount with a commercial bank, the facilities are usually arranged through a hundi broker. In other cases, the banks employ their own specialists for the purpose. Exchange transactions are arranged by exchange brokers, bullion purchases and sales by bullion brokers, and so on. The net result is a high degree of integration in the central money market and the establishment of a system of connections with parties and types of business far removed from the direct knowledge of the banks, which provide the ultimate accommodation. So that, within their own spheres of influence, the major Indian money markets, far from being under-developed as is so often assumed, provide ample evidence of a system of relationships quite as sophisticated as any found elsewhere.

The bazaar sections of the Indian money market also demonstrate a high degree of organisation. In general, the indigenous sector can be sub-divided into three main groups — Marwaris, Multanis, and Gujeratis (with the addition of Bengalis in Calcutta) — representing separate communities each with its own way of doing business. Nevertheless, some degree of homogeneity is secured, partly through the operations of the borrowers, and partly as a result of the somewhat tenuous connection with the commercial banks and other lenders. A large proportion of the resources of these indigenous banking groups is contributed from within their own communities and a measure of financial independence is the result. Indeed, it is this phenomenon which, together with the riskiness of the business undertaken, stands in the way of a more completely integrated system.

In these markets, usance or « muddati » hundis are the accepted credit instrument. Usually, they are drawn for a period of 90 days, but shorter usances are not uncommon. Frequently, the usance hundi is unaccompanied by any document of title to goods and, in these circumstances, may well be of an accommodation character only, but, as money is lent primarily on the personal credit and standing of the borrowers, this is not regarded as a serious defect. However, the Multanis do not lend for speculative purposes and deal only with genuine traders, whereas the Marwaris have no such inhibitions and even engage in speculation themselves. Rates of interest vary a good deal and certain merchants of standing are said to be able to borrow at between 3 and 5 per cent, but the more usual rate is 7 to 8 per cent from Multanis, an average of 9 per cent from Marwaris, and anything from 9 to 15 per cent from a Bengali.

The second main function of the indigenous banker is concerned with the collection of « darshani » hundis. The usance hundi is the instrument generally in use for borrowing

money, whereas the « darshani » hundi, or demand draft, is employed mainly for the collection of trade accounts or the remittance of funds. Two main types of transactions are involved. First, these hundis may have been drawn by merchants for goods supplied to traders in other centres. Supporting documents, such as railway or steamer receipts, may or may not be attached. Collection of what is essentially a demand bill is effected through the agency of an indigenous banker. Normally, one day's grace is allowed and, if the hundi is not paid, penalty rates are imposed. If it is not paid by the sixth day, the matter is taken up by a Darshani Hundi Committee, which certifies the fact of non-payment and takes disciplinary action by imposing further penalties. Second, such hundis may be drawn for the purpose of remitting funds from one centre to another. Thus, an established merchant operating in several centres may draw a hundi in one centre on his office elsewhere, discount it with an indigenous banker, who sends it for collection to the centre on which it has been drawn. Trade remittances through the banking system are always subject to a charge, but this is not invariably the case with the indigenous banker. It depends on the urgency of the need for funds. For example, in the busy season, frequently the shroff who is arranging the remittance will himself pay a commission to the party on whose behalf the funds are being transferred. In the slack season, either funds will be remitted without payment on either side, or a commission will be paid by the party requiring the transfer.

V

Both in the central money markets and in the indigenous sectors different rates of interest will apply to the several types of business, mainly because of different degrees of risk. But, in addition to this phenomenon, it is not uncommon to find that the rates in different centres diverge significantly. For our purpose, it will be sufficient to analyse the comparative position in Bombay and Calcutta. In a fully integrated system, one would expect the rates in these centres to be approximately equal, since any tendency for rates to be higher in one should be met by an inflow of funds to take advantage of it and this would have the effect of reducing the disparity. But, in India, there are significant, if not considerable, divergences and it is therefore necessary to enquire into the possible causes. Some of these differences are rather puzzling. For example, both advance and bazaar rates in Calcutta tend to be higher than in Bombay, whereas with short-term money rates the position appears to be sometimes reversed.

The impression that lower average short rates rule in Calcutta appears to be mainly a statistical accident. Call money rates in Calcutta are governed by the Exchange Banks' Association, who agree to quote a relatively low rate. It is this rate which appears in the statistics. In actual fact, where the demand for finance exceeds moderate figures, money must be borrowed from banks outside the Association. Thus, at a time when the rate fixed by the Association is ½ per cent, a borrower might have to pay 1 or 1¼ per cent for a proportion of his money and this rate would equal — or even slightly exceed — that quoted in Bombay, where it seems that the published rates relate to an average of those charged by both the exchange banks and the larger Indian banks. The same considerations may also help to explain the published differences in 3 and 6 months deposit rates.

Rates on advances in Bombay approximate 2 to 5 per cent with the bulk of the business probably being done at 3 to 4 per cent in a moderately busy season. In Calcutta, the comparable range would seem to be 3 to 6 per cent, though some of the small banks (of which there are more in Calcutta) may do business up to 8 or 9 per cent. Most of the business seems to be done at 3 to 5 per cent. Hence, for many transactions, the effective rates are not greatly different, but the spread of rates over the whole field is undoubtedly greater in Calcutta and the average rate is significantly higher. Much the same is true of bazaar rates. Thus, between 1945 and 1949, the lowest bazaar rate reported in Bombay seems to have been 4½ per cent and the highest 8¼ per cent, with 7½ per cent the more usual upper limit. In Calcutta, the rate never fell below

6 per cent and the maximum was as high as 15 per cent, though 10 per cent would appear to have been more common. The following two seasons experienced rather exaggerated rates, due to special circumstances (the Korean War was one such influence), and the bazaar bill rate for February, 1952 was quoted at 9 per cent for Bombay, 10 to 12 per cent for Calcutta, and 13 1/8 per cent for Madras. By way of qualification, however, it should perhaps be added that, in comparison with Bombay, the Calcutta rate is more volatile and an average of all the rates which have ruled over a period would tend to be rather less different from the average ruling in Bombay than a range based on extreme movements would indicate.

It is not particularly difficult to discover reasons for the tendency for advance rates to be higher in Calcutta than in Bombay. In general, relatively higher rates in Calcutta can be analysed in terms of the respective importance of supply and demand factors. In the first place, Bombay is a more important banking centre, with larger banks and a greater concentration of head offices. Funds are in greater supply in Bombay, because bank reserves are held at the head offices and the larger the institution the larger the reserves, in addition to which the Reserve Bank itself has its head office there and, partly for this reason, open market operations (which, since 1945, have been undertaken on quite a substantial scale) tend to be concentrated in Bombay rather than in Calcutta (or Madras), so that there are greater facilities for the liquidation of securities at short notice. Not only is there still a large number of small banks in Calcutta, which are forced to pay higher rates in order to attract deposits and which charge correspondingly higher rates on advances (many of which constitute the more risky types of business), but the supply of money to the bazaar markets (where the divergence is more marked) is probably rather restricted, since the Bengali is not a « natural lender » and prefers to put his money into Government securities or land, where he judges the security of his investment to be greater (though it is true that the bulk of the lenders in the Calcutta bazaars are non-Bengali). An additional factor on the supply side is probably the relative weakness of the contacts between the indigenous and central money markets in Calcutta, where the rediscounting of hundis with the banks is not perhaps so highly developed as in Bombay. Since the link between the two sectors is the discounting shroff, the flow of funds between the two would tend to be less strong and a plentiful supply of « short » funds in the central market may have very little influence at the fringe and in the bazaars, where the rates rise steeply in times of stringency.

On the demand side also, there is reason to expect higher rates in Calcutta. The volume of trade is greater there and the demand for finance is highly concentrated, because of the larger number of important commodities dealt in and the overlapping of seasons. Jute, tea, and coal in particular absorb quite a lot of money. It is this which helps to explain the extremes to which interest rates can rise in Calcutta, though there are other, more psychological factors as well. It is also said that the emphasis on exports may help to explain the higher rates which obtain in Calcutta. Bombay, on the other hand, is primarily an import centre. It is argued that money is tied up longer in the export trade (particularly when goods are exported to Eastern countries), while import finance is said to liquidate itself fairly quickly. However, since most of the export bills are discounted in the London money market shortly after they have been drawn, this part of the explanation must be accepted with reserve. Indeed, the psychological factor would appear to be much more important. There are, for example, temperamental differences. The standard of business morality is higher in Bombay and, in general, the businessman there is more level-headed and less likely to gamble. It is sometimes said that the yields are higher in Calcutta and that business can afford to pay more, but one has the impression that much of this profit derives from speculation, which itself is a function of the ignorance of conditions which is so general in Calcutta markets. In short, much of the marginal demand for finance (which produces the extreme quotations) is absorbed in « fake » business. The high yields when they are obtained (which is not infrequently) must then

be related to the heavy risks which are accepted by these businessmen and (for that matter) by some of the smaller banks which provide them with the funds.

On the basis of this analysis, therefore, it is not difficult to understand the structure of interest rates which obtains in India. Where rates are high, there is not the same incentive as in a more integrated system to transfer funds from centres (or sectors) where they are low. Frequently, the channels of communication are clogged or inadequate and the costs of transfer are too great. Moreover, costs must be measured in terms of convenience as well as in terms of money. For example, banks in Bombay may have funds to spare for a short period, but, in view of the costs involved and the uncertainty as to when they will need the funds themselves, they would be loath to transfer them to Calcutta to take advantage of higher rates there, so that although there is some movement of funds between the two centres, it is not nearly so general as might be supposed from first considerations alone. Moreover, it must be remembered that for similar classes of business the rates in the two centres are not greatly different and for those types of business for which high rates may be charged there are related risks, which the larger and better managed banks would be unwilling to accept.

In general, it is possible to sum up the position in India as a whole in much the same terms. For highly organised banking institutions doing substantially the same business, interest and other charges are not greatly dissimilar, differences being primarily due to costs of transfer of funds and variations in the degree of risk. By the same token, however, those markets which are not integrated with the more highly organised sections of the money market assume local characteristics, and charges are governed by particular considerations of supply and demand. The range of business done also varies more and the interest rate structure at the margin or « fringe » is governed by the somewhat restricted supply of finance for special purposes. This applies most obviously in the bazaar markets, but it is also apparent in the business done by some of the smaller banks. The funds available are restricted either to those from a special trading community or (as in the case of the smaller banks) to those who seek a high rate of return and are prepared to accept the consequential risks of loss. Charges to the borrower are correspondingly high. His will usually be a risky type of business, for the finance of which the larger concerns with a more conservative policy and (it should be added) less local knowledge will generally be unwilling to lend. Thus, functional specialisation does exist and many of these local and specialised markets are highly developed within their own sphere of activity. Where the development has been less complete is in the establishment of conventional relationships between markets, or groups of markets. In other words, the system is not yet fully integrated. Funds do flow both from one market to another and between similar markets in different centres, but the channels of communication are inadequate.

The Theory of Inflation

by

F. H. HAHN

The purpose of this paper is to discuss certain problems in the theory of inflation. The reflections which follow were inspired by a recent work in this subject by Dr. Bent Hansen (1). This article is therefore in the nature of a review article although I have found it convenient, for reasons which will become apparent, to develop my own general analysis of various problems and compare it with that of Dr. Hansen, rather than to go through Hansen's work step by step and chapter by chapter.

The plan of the paper is as follows: in the first section we discuss the question of a definition of inflation and our general approach to problems raised is made clear. In the second section certain specific situations and the effect of different government policies on these are discussed. In the third section problems raised by a dynamic analysis are examined, while the last section concludes with certain general reflections on Dr. Hansen's work.

I

The question of a definition of inflation and inflationary pressure is important, partly because the terms are used loosely in ordinary parlance and partly because the presence of inflation is normally regarded as raising problems of policy which cannot be examined without an adequate and rigorous definition. But when that much has been said, the definitions actually chosen still remain arbitrary and their value can only be assessed with reference to the practical problems we wish to examine.

(1) B. HANSEN: *A Study in the Theory of Inflation*, George Allen and Unwin, 1951.

Inflation is normally used in an aggregative sense and refers to a situation in which aggregate demand for goods and services valued at current prices exceeds aggregate supply valued in a similar way. This definition is a direct consequence of the older concept of monetary equilibrium which was defined to exist when aggregate monetary demand was equal to aggregate monetary supply.

But it so happens that while if there is equilibrium in every market in the economy there must necessarily also be monetary equilibrium, the reverse is not the case. Monetary equilibrium therefore does not have the same meaning as in normal economic usage. But as we shall argue at greater length later (section III), as long as individual plans are not fulfilled, they will tend to change, so that if there is monetary equilibrium in one period, it is unlikely to hold for subsequent periods. In the last analysis monetary equilibrium through time requires equilibrium in every single market of the economy. The distinction between monetary equilibrium and the equilibrium of the system as a whole seems to me misleading from both a policy and theoretical point of view. For the prime reason why, at least in a closed economy, the government is concerned with inflation is because it leads to a breakdown of the market system of allocation of resources and such a mal-allocation is quite compatible with monetary equilibrium.

In what follows we shall attempt to identify inflation with a particular sort of disequilibrium. But before we proceed a word must be said about the meaning of equilibrium in this context. We shall say that equilibrium is established if all excess demands are and remain zero through time. At a later stage we shall examine the concept of excess demand in

greater detail. But here we wish to note that the equilibrium values of the variables we are interested in will be different in different institutional situations. In particular the role of government must be specified. This can be done in two ways. Either we can insert certain parameters such as tax rates, government expenditure, rationing (*i.e.* constant amounts of certain commodities) etc. into the system, or we can specify certain governmental functional relationships, *e.g.* the rate of tax levied as a function of money incomes etc. In either case government activity is taken as given either in the sense that certain government decisions have been taken and are not altered, or in the sense that government decisions are related in a given constant way to other variables in the system. A change in government policy must then be interpreted either as a change in the parameters or as a change in the government functional relationships.

That being understood we can now proceed. Suppose first that there exists a set of prices and quantities produced which will yield equilibrium in the sense defined above. Suppose further that this equilibrium is dynamically stable in the sense that whatever the initial conditions, equilibrium is established. In this situation I will say no inflation is possible, because with the given government policy, equilibrium is always achieved. Suppose next that the equilibrium is dynamically unstable, so that when it is disturbed there will be permanent excess demand and/or excess supply in at least some markets. If then a situation arises where there is permanent excess demand in some markets without there being any excess supply in any other markets, I will say that there is total inflation.

Total inflation can occur without the condition that equilibrium should be dynamically unstable — namely when no equilibrium is possible. As will emerge, this is a case to which we shall attach great importance. It may for instance occur if the government policy is to keep a given number of men always employed. (It should be remembered here that the fact that the number of equations describing a system is equal to the number of unknowns is no guarantee that a solution to these equations can be found).

Before we proceed to compare our definition with that of Dr. Hansen, something must be said in justification of our approach. In a closed economy the prime disadvantage normally associated with inflation is that it entails the break-down of the price mechanism. Our definition applies to such a situation *par excellence*. The other disadvantage sometimes mentioned is that it entails a redistribution of income against those whose incomes are fixed. But almost any change in the economy is associated with some redistribution of incomes and this is therefore not specific to any particular change. Further our definition is such that in order to « cure » inflation some of the functions of the system must change — in particular the functional relationships of government. That again is well in accord with common usage. Moreover, on our definition the answer to the question posed by Dr. Hansen: « how much demand must be decreased (or supply increased) in order that the market considered shall have attained equilibrium? » (p. 63), is only relevant to government policy if there is inflation, for otherwise equilibrium will be established any way, without a change in government policy as defined. The answer to the second of Dr. Hansen's questions: « how will prices develop if nothing is done to bring the market into equilibrium? » will clearly depend on whether there is a tendency to equilibrium without « anything being done » (which I understand to mean « without a change in government policy ») or not, can also be adequately answered on our definition. (But more of this later.) What I hope to have indicated and hope to develop further presently is that our definition is well suited to form a basis for answering the questions we wish a theory of inflation to answer.

Now Dr. Hansen's definition differs from mine in several respects. Dr. Hansen distinguishes between only two main sectors of the economy (2): goods markets and factor markets. Let x_i $(i=1 \ldots n)$ stand for the demand for the i^{th} good and $\bar{x}_i$ $(i=1 \ldots n)$ for its supply, let p_i $(i=1 \ldots n)$ be its price. Let X_j $(j=1 \ldots m)$ stand for the demand for the j^{th} factor and $\bar{X}_j$ $(j=1 \ldots m)$ for its supply

(2) *Ibid.*, Ch. I and II.

and P_j (j=1 ... m) for its price, then according to Dr. Hansen monetary inflationary pressure exists if:

$$\sum_{i}^{h} p_i(x_i - \bar{x}_i) + \sum_{j}^{m} P_j(X_j - \bar{X}_j) > 0 \qquad \text{(i)}$$

$$\sum_{i}^{n} p_i(x_i - \bar{x}_i) \geq 0$$

and

$$\sum_{j}^{m} P_j(X_j - \bar{X}_j) \geq 0 \qquad \text{(ii)}$$

Despite Dr. Hansen's discussions of this definition I have been unable to find anything substantial to recommend it. This is so for the following reasons:

(1) The absence of Hansen's inflationary pressure does not mean that prices somewhere in the economy may not be rising continuously, or, to put it differently, it does not imply the absence of excess demand *in any one sector.*

(2) The two-fold division between sectors is arbitrary. From both a policy and analytical view there is no reason to attach any special significance to Hansen's sub-aggregates. It is true that factors can be taken as being « substitutes » to goods (see later) and *that* is of special significance. But some goods may be substitutes and some factors may be substitutes also (3).

(3) Hansen's definition implies nothing about the development of prices through time. This, as I have already argued, seems to me the crucial part of any definition of inflation.

(4) Hansen has shown (4) that when certain assumptions concerning price reactions etc. are made, the absence of his monetary pressure of inflation also implies the constancy of either a Divisia or Laspeyre price index. It is an impressive achievement to have established this correspondence, but is it relevant for any practical purpose? We are not for policy or analytical purpose interested so much in the constancy of an index but in the existence of equilibrium.

The final objections to Hansen's definition can only emerge as the analysis based on its application proceeds.

Up to now we have used the expressions excess demand and supply without clearly specifying what is meant by these terms. On this point no better guide could be found that Hansen who, perhaps for the first time, presents to English readers a clear exposition of the Swedish approach to these definitional problems. Assuming single-valued expectations Dr. Hansen takes us point by point through the distinction between expected sales, the actual quantity of goods available, planned purchases, optimum purchases and active attempts to purchase. He then uses these concepts in an analysis of national income accounts. His most important conclusion here is to show that the old definition of inflation as an excess of *ex ante* investment over *ex ante* savings is insufficient. This is immediately obvious when it is remembered that the investment and savings concept is an aggregative one which says nothing about the absence or presence of excess demands in any of the sectors.

For the purposes of this paper the most relevant question raised by these discussions concerns the difference between *ex ante* and what may loosely be called *ex post* excess demands (5). Thus if planned purchases exceed planned sales, there will be an *ex ante* excess demand. This however may differ from the excess of active attempts to purchase over available supplies. Now the excess demands we had in mind in our definition of inflation were in terms of the difference between the optimum purchases and expected sales (assumed = planned supply = optimum supply). As we shall see again later, our definition is appropriate to an analysis of equilibrium. If however we wish to examine the system when not in equilibrium and, in particular, the development of prices, the *ex post* definition is probably the relevant one. That is to say the equations which describe the behaviour of

(3) It may be noted already at this stage that all the relationships which hold between goods and « factors » also hold for goods that are produced and goods that are used up in production. It is also an open question whether from a policy point of view the total excess demand for labour was in recent years say in the U.K. as important as, for instance, the continued excess demand for coal, and whether the closing of the Hansen gap would have made the economic position of the country any better.

(4) *Ibid.*, pp. 220-27.

(5) We say « loosely » because in a strict *ex post* sense demand is identically equal to supply.

the system when out of equilibrium need not be the same as those which describe it when in equilibrium. But this will in general not affect the relevance of our definition of inflation.

Let us suppose that there are m basic unproduced inputs needed in certain variable proportions to produce the outputs of the system. At any given set of input prices we can find the maximum amount of any output j that can be produced at the optimum input ratios given all the other outputs. To describe these maximum outputs we should probably have to resort to the technique of linear programming. But in any case the « maximum » outputs can in principle be defined as lying on some particular surface. As long as the equilibrium outputs are below the surface there is no problem. If however they lie on or above the surface then planned supply may be more than actual supply. But as long as we can assume that active and optimum purchases coincide — and for most cases we probably can — it is clear that if there is *ex ante* excess demand there must also be *ex post* excess demand. The permanence of the former thus implies the permanence of the latter. But we must remember that the *ex post* relationships will be the relevant ones for describing the system when out of equilibrium.

This leads me to another difficulty, to which we shall return again later and which is not faced squarely by Dr. Hansen. If a system is out of equilibrium, in particular if there is inflation on our definition, the allocation of resources is to a large extent arbitrary. It is therefore impossible in such a situation either to find *a priori* the amount of any commodity actually produced or to give meaning to such terms as the actual total output. Thus while the *ex post* gaps can be found nothing *a priori* can be said about their development through time. We could not therefore sensibly say that there is inflation in one market if *ex post* excess demand is permanent, simply because nothing can be said about its permanence. As long as planned supply is equal to actual supply these difficulties are avoided. When these two however diverge it is difficult to say anything about the development of the system. In the special case where the equilibrium values of at least some outputs are above what can be produced, we can say that at least partial inflation is likely.

II

But let us proceed to an analysis of various special problems.

The supply of goods and services depends on expected demand. The demand for goods and services depends on expected incomes and prices. Let us now suppose all prices fixed by decree at a level such that there is total inflation on our definition. What measures can the government take to deal with it?

Let us first assume that the government levies new income taxes to reduce demand. It may now happen that while the excess demand for some goods is reduced, the excess demand for others is increased. This will be so either because some goods are « inferior » (6) goods and/or because the income tax changes the distribution of income. It may therefore be impossible for the government to do away with excess demand by these means alone.

Let us look at this in a little more detail. Given constant returns to scale, the ratio in which inputs are combined to produce outputs is fully determined by the relative prices of inputs. The demand for outputs is determined by their relative prices and the expected real incomes of individuals, and assuming perfect competition, the supply of output is fully determined by expected prices. Now if prices are fixed by decree, and there is total inflation, then reduction of real incomes of individuals by taxation can only bring about equilibrium if such a reduction is an alternative to changes in prices. Now while a reduction in real incomes is in some sense an alternative to a rise in the absolute price level, it may not be an alternative to changes in relative prices. In particular, the relative prices of inputs to outputs must be such that the demand for inputs is equal to their supply. But under perfect competition, when prices are fixed by decree, the demand for inputs is independent of the

(6) That is goods such that the demand for them increases with decreases in income and vice versa.

demand for output, so that since changes in real incomes operate only on the latter, such changes will not affect the excess demand for inputs if such an excess demand is present.

But this conclusion does not only apply to inputs as a whole, but also as between different inputs. For the relative demand for inputs as already noted depends only on their relative prices, and if these remain fixed, it may be necessary to create excess supply of many of these inputs before the excess demand for any one particular input becomes zero.

The burden of this argument then is that equilibrium may only be possible at a certain limited set of relative prices, so that if the fixed prices are not in this set, government operations on real incomes will not be successful in bringing about equilibrium. We should emphasise that this conclusion does not depend on the assumption of perfect competition, for as long as all prices are fixed by decree (not maximum prices) there is no distinction between the two situations. Nor are these results modified if we assume that the equilibrium outputs and inputs are in excess of what it is physically possible to produce. For by reducing real incomes of individuals sufficiently (that is, by altering the government's functional relationships), it will be possible to reach a physically attainable equilibrium, always provided the fixed set of relative prices is an admissible set.

The question might now be legitimately asked, why fix prices at all? If equilibrium can only be established at certain definite relative prices, why not leave it to the market to establish these? The answer to this question is two-fold:

(a) It may well be that free relative prices do not reflect social costs,

(b) equilibrium may only be stable if prices are fixed. The first one of these reasons does not concern us here. The second one however is of some importance to the argument. As long as prices are fixed and « effective », the demand curve facing producers is horizontal irrespective of the form of competition. If there is not perfect competition everywhere it follows that with one exception (7), planned output will be different when prices are fixed from when they are not. Doing away with control would therefore alter the *shape* of the demand curve facing the producers and may therefore lead to renewed excess demand. There would therefore be good reason to maintain price control.

Suppose next that the prices of some goods at present in excess demand are fixed while those of others (also in excess demand) are free to vary. Is this compatible with the achievement of equilibrium? Let us now adopt the convention that X_i $(i=1 \ldots n) > 0$ is an output and X_i $(i=1 \ldots n) < 0$ is an input. Then following Mosak (8) we shall say that if $\frac{\partial X_i}{\partial P_j} > 0$, X_i and X_j are gross substitutes and when $\frac{\partial X_i}{\partial P_j} < 0$, X_i and X_j are gross complements. Making use of this definition it is clear that if the price of a good or input j being in excess demand is fixed while the price of another good or input k, also in excess demand, is free to vary, this cannot lead to equilibrium if j and k are gross substitutes, provided also that the planned supply of the controlled good is a function of its price only. (It should be remembered that under a regime of perfect competition the planned supply of a good depends only on its price). If the goods are gross complements the equilibrium may be possible depending on where the prices are fixed.

We may put all this in a more general form. If there is perfect competition, then there may exist one unique set of prices at which equilibrium is established. Now, provided each individual's money income always changes in the same proportion as prices, the level of prices will not disturb equilibrium as long as relative prices are in equilibrium. Fixing one price only, at any arbitrary level, is therefore compatible with equilibrium *provided* that the money income of each individual is properly adjusted. If the latter is not the case then this price fixing will not in general be compatible

(7) The exception occurs if the output at which marginal revenue is equal to marginal cost when prices are controlled, is the same as when prices are not controlled.

(8) J. L. Mosak: *General Equilibrium Theory in International Trade*, Bloomington, 1944, pp. 44-45.

with equilibrium. Let us put this precisely. Let X_i be the excess demand for the i^{th} good (or input) expressed as a function of (n-1) price ratios and the real money income. We have (n-1) equations of the form:

$$X_i = X_i\left(\frac{P_1}{P} \ldots \frac{P_{n-1}}{P}, \frac{M}{P}\right)(i = 1 \ldots n)$$

where P is an index of the level of prices defined by an appropriately weighted price index. M is stock of cash (9). We assume there to be « no government ».

By Walras' law (about which, more later) one equation follows from the rest. We thus have n equations, (n-1) excess demand equations, and one defining the price index, in the (n-1) price ratios and in P. Set the (n-1) excess demand equations equal to zero and assume that a unique solution exists in the unknowns. Let these equilibrium values be $\left(\frac{P_i}{P}\right)^\circ$ (i=1 ... n-1) and P°. If now we arbitrarily fix P_j at $\bar{P}_j$, then if equilibrium is to be possible all prices must change so as to preserve the equilibrium price ratio, that is P must change and hence M must change in the same proportion as P. If however M is fixed and given, and equilibrium is unique, then only price we can fix is the equilibrium price. It should be noted that we are assuming that there is a tendency for equilibrium to be established.

Thus as long as there is perfect competition and the government fixes some prices arbitrarily *and does nothing else*, equilibrium is only possible if they fix the equilibrium price, but then there is nothing to be gained. If however there is not perfect competition then as we have already noted, the fixing of prices changes the demand curves facing producers and that is only another way of saying that the functions of our system will change. In general, anything that causes a change in these functions will lead to a change in the equilibrium prices. It is even possible that whereas no equilibrium existed before prices were fixed, the fixing will make equilibrium possible. Not much can be said here on *a priori* grounds, but the distinction is important and must be borne in mind.

Lastly let us examine an autonomous shift in any of the functions such as may occur when the productivity of an input changes. A change in productivity will change the supply functions of output provided the latter prices remain given and thus change the demand for inputs. On the other hand the changes in productivity will affect the whole system and demands and supplies will tend to change everywhere. It is therefore again quite impossible to make any *a priori* predictions. For instance the fall in the productivity of a factor i, will tend to reduce the demand for it and increase the demand for i's substitutes. Moreover it will affect different sectors of the economy differently, and hence relative demands and supplies at current prices will tend to change. Nothing is gained by classifying possible outcomes.

Before we turn to Dr. Hansen's analysis of this problem it will be useful to sum up the analysis of this section in somewhat more general terms.

Throughout we have treated inflation as a particular sort of disequilibrium. That is, if equilibrium is one of the aims of government, then on our definition inflation is one particular case where the aims of government and those of individual sectors are all basically incompatible. If we like, we have treated inflation as a special case of the wider genus of incompatibility of aims in the economy. This is in contrast to Dr. Hansen who dosn't care very much about equilibrium, and who is preoccupied with aggregate relationships and the constancy of price indices. This is well within the traditional of Swedish monetary theory. It is also to some extent a hangover from the old distinction between real and monetary analysis and real and monetary equilibrium.

In this section we have assumed that the functions describing private actions are given, and that with the given government policy there is inflation in our sense. We have then

(9) It is assumed that the distribution of income remains given and constant throughout. The equations here used are based on Patinkin: « A Reconsideration of the Equilibrium Theory of Money », *Review of Economic Studies*. No. 45, 1949-50. See also my « Comment on a Reconsideration of the Equilibrium Theory of Money » in a forthcoming issue of the Review.

examined a number of cases of changes in government policy, *e.g.* fixing prices and their effects. But the really important point is this. It may well be that with the given private functions government aims cannot be realised, *e.g.* it may be impossible to have full employment and equilibrium. The only way open to the government is then to alter these private relationships, by physical control, direction of labour etc. In the modern world of full employment policies, the incompatibility of aims in the economy most frequently finds expression in inflation or if we like in the breakdown of the market mechanism. How to make aims compatible and the extent to which the private sector must be « controlled » seems to me the really important problem. The constancy of price indices seems trivial in comparison.

Dr. Hansen in analysing these problems suffers from two disadvantages: (1) his definition of inflationary pressure which obscures certain important problems and (2) his insistence on analysing them in terms of a clumsy aggregative apparatus. For Dr. Hansen carries on this part of his work by means of simple diagrams using aggregate demand curves and aggregate supply curves, distinguishing only between the labour market and all other markets. Nothing at all is gained by this approach and much is lost.

The diagrams themselves — once the first one has been explained — are numerous and all very similar, and the answers they yield to our questions are the sort we know before using them. By means of them for instance Dr. Hansen shows that if there is excess demand for both goods and factors, closing the goods gap will not necessarily close the factor gap. But this is immediately obvious, as already pointed out above. When it is considered that as long as planned supply of any good i is only a function of its price, the demand for that good cannot influence the demand for inputs as long as P_i remains constant. Similarly Dr. Hansen shows that for instance keeping wages constant and allowing prices to rise may increase inflationary pressure by widening the factor gap. This again is immediately obvious once it is remembered that inputs and outputs are gross substitutes.

While therefore nothing seems gained by Hansen's mode of procedure which on an Occamite principle could not have been put equally well without making all sorts of unnecessary « aggregation » assumptions, the procedure itself, together with his definition of inflation, may easily lead to error. Thus for instance Hansen's policy prescriptions are directed to the end of bringing about an intersection of the aggregate planned supply curve with the aggregate (planned) demand curve and the aggregate curve of actual output, for in this situation there would be no pressure of inflation on his definition. But it is clear that this is perfectly compatible with excess demand in some parts of the system. Let us see why this may be important.

Firstly Hansen defines the maximum actual output with reference to the labour supply only. This assumes both a perfectly mobile labour force and the absence of any physically scarce limitational factors such as coal. Neither of these assumptions seems to me justified. But let us suppose that they are fulfilled. The intersection of Hansen's curves, *i.e.* the absence of his inflationary pressure, he later shows to imply, making certain assumptions about the price reaction equations (see later), the constancy of certain price indices. But why should policy be directed towards stabilising such price indices, for the prime disadvantage of inflation and deflation may still be present — the breakdown of the price mechanism. Indeed not one single sector of the economy need be in equilibrium and yet the price index may be stable.

But that is not all. For unless the price mechanism is « working», the allocation of resources is to a large extent arbitrary. That being so I am totally unable to understand Hansen's aggregate actual supply curve. As he himself points out, such a curve can only be drawn if relative outputs remain constant which they clearly will not. Hansen recognises, indeed points out this difficulty, and then contrives to ignore it. It is however crucial and invalidates much of his analysis.

But most important of all, Hansen's diagrams can tell us nothing about the possibility of equilibrium being achieved without or with government interference. Since his curves

must be redrawn for every change in relative prices and indeed can tell us nothing about these, they are quite unable to be of help in this problem. But as I have already argued at length, it is this question of the possibility of equilibrium which is of crucial importance for government policy, to illuminate which, most of the diagrams are offered. Moreover, consider a position where there is no monetary pressure of inflation. Unless this is also a position of equilibrium, there is no reason why it should be stable. For relative prices may be changing and this will shift all curves and in general not leave the aggregate of all excess demands valued at current prices equal to zero. Thus it is not even true to say that if monetary pressure of inflation a la Hansen is zero today it will be zero tomorrow. This makes it even more remarkable why we should be interested in such situations, or how the diagrams should be useful in describing them since their curves are likely to shift from period to period.

III

Up to now we have considered only static equilibrium positions, and referred only vaguely to the concept of dynamic stability conditions. It is time that our analysis were broadened to take into account certain specifically dynamic aspects of inflation.

In an economy with positive net investment, the stock of capital is growing and hence output will be growing through time. Moreover as long as people continue to save, some people (or government) must continue to invest if equilibrium is to be preserved through time. By equilibrium we shall mean that all plans are fulfilled. Moreover since in such a situation output cannot be stationary, expectations cannot be static, if they are to be compatible with equilibrium. This is an important point to bear in mind. Given the technique of production and the consumption functions of individuals (or groups of individuals), there will normally be only one time expansion path for each sector of the economy, which is compatible with equilibrium. This path can be found by assuming initially that all plans are continuously fulfilled. If equilibrium is to be possible, plans must in fact develop in the manner in which the equilibrium system assumes them to develop.

The stability of such a system cannot be assessed from the equilibrium functions. For a disturbance of equilibrium will lead to changing plans and these changes must be postulated and cannot be deduced from the equilibrium system. In general a very useful distinction can be made between « routine » behaviour and « decision » behaviour (10). Routine behaviour occurs when the same past events are always acted upon in a given way, while decision behaviour occurs if the same past events are acted upon in different ways. It must be noted that « past events » can be interpreted very broadly, *e.g.* as rates of change in income over the last m periods, or the m past levels of income or both or any other thing. Equilibrium implies routine behaviour, if the equilibrium paths of the various sectors are systematic, for individuals will have the same past experience at regular intervals. A disturbance of equilibrium, which does not upset routine behaviour will therefore not lead to permanent disequilibrium. If however the disturbance is sufficiently large to upset routine behaviour, and substitute decision behaviour instead, then these decisions must be followed out step by step to see whether they lead to the re-establishment of the old routine behaviour. Nothing can be said *a priori*.

If the system therefore is out of dynamic equilibrium and there is no tendency to move towards it, the prime aim of government must be to attempt to establish the correct form of routine behaviour. In the absence of this the only way to cope with continuous excess demand is by physical controls. For however it manipulates and prices, unless the correct routine behaviour is established, disequilibrium will continue. The difficulty of manipulating private behaviour seems to me to be one of the more important arguments on the side of those who favour physical controls.

We must now also note a point of special interest. Suppose that the equilibrium paths are such as to lead to a steady growth in all

(10) See K. Katona: *Psychological Analysis of Economic Behaviour*. McGraw-Hill, 1951.

outputs. If now one input is limited in supply and its productivity is constant, this can only be accomplished by changing the inputs ratios. Hence if excess demand for the scarce input is to be avoided its price must rise relatively to that of other inputs. But such price rises may not occur smoothly and in any case may upset routine behaviour. Hence equilibrium may break down. In general if the rate of growth in outputs which preserves equilibrium is greater than that possible with existing resources and rises in productivity, there will be a permanent tendency for inflation to develop. The aim of government must be here to reduce the equilibrium rate of growth — say by reducing the equilibrium propensity to save. But on the other hand it should be noted that equilibrium of this sort is perfectly compatible with rising prices, as long as these are planned for and anticipated. Stable prices and dynamic equilibrium may be incompatible.

Now a number of writers have sought to extend the concept of dynamic equilibrium just presented to cover the case of what Hansen calls quasi-equilibrium, which is a situation such that certain variables exhibit a regular movement (normally constant rate of growth) without requiring excess demands to be zero everywhere at every moment of time. Hansen employs this concept to analyse open inflation which is characterised by a constant rate of growth in all (really goods and factors) prices, while keeping relative prices constant. He shows that if the Samuelson-Metzler (11) analysis yields dynamic stability of a static Hicks system, it will also yield dynamic stability of Hansen's quasi-equilibrium. The analysis here is very stimulating and this reader at least was greatly refreshed to turn from Hansen's two-dimensional geometry to a proper analysis of the whole system.

Hansen is interested in this quasi-equilibrium for two reasons: (a) because it is a plausible model of open inflation, and (b) because he believes that it overcomes what he terms the homogeneity problem of the classical stationary model of exchange. Let us deal with these in turn.

(a) The existence of Hansen's quasi-equilibrium depends on individuals having static expectations (12). But as Hansen rightly suspects, few readers will be willing to take this as a plausible long term assumption, yet he does not modify his analysis. But I believe it is here that the crucial distinction between equilibrium and quasi-equilibrium is to be found. In the former, because routine behaviour is implied, the function are stable through time, whereas in the latter they are not. It is therefore doubtful whether it is worth while investigating the dynamic stability of such a system. How long will it take for rising prices to induce expectations of rising prices? Surely not much longer than it would take for a divergence from quasi-equilibrium to be rectified. Nevertheless Hansen's analysis is very valuable for two reasons: (a) he shows how open inflation may develop even with static expectations and (b) he gives a formal analysis to the looser statement of Wicksell's famous cumulative process. It must however be remembered that throughout, a perfectly elastic supply of money is assumed.

(b) The « classical » analysis of static exchange equilibrium can be summarised as follows. Let there be n commodities of which one is the numeraire-money. Assume that all demand and supply functions are homogeneous of zero degree in the prices. It is well known that a homogeneous function in n variables can always be reduced to a homogeneous function in (n-l) variables, since the value of the function depends only on the ratio of the variables. In equilibrium all excess demands must be zero. We thus have n equilibrium excess demand equations in (n-l) price ratios. The system is clearly over-determined.

The way this difficulty is normally overcome is by the use of Walras' Law. Since the demand for commodities constitutes the supply of the numeraire and the supply commodities the demand for the numeraire, it is normally argued that the excess demand equation for the numeraire follows from the (n-l) excess demand equations for the commodities. Thus

(11) See P. A. Samuelson: « The Relation between Hicksian Stability and True Dynamic Stability », *Econometrica*, XII (1944) and L. Metzler: « Stability of Multiple Markets: The Hicks Conditions », *Econometrica*, XII (1945).

(12) That is the existence of routine behaviour.

the n excess demand equations are not independent, and one can be dropped out. We will then be left with (n-l) equations to determine (n-l) price ratios — but the absolute level of prices cannot be determined from this system. Now, Hansen in a brilliant piece of analysis shows that unless expectations are consistent, Walras' Law need not hold. This of course is not true in equilibrium where Walras' Law must always hold, but it is true for other positions: in other words Walras' Law is not an identity and we can therefore not strike out one equation in all situations.

The reason for this is that planned supply need not equal actual supply and planned demand need not equal actual supply. In other words *ex ante* excess demands need not equal *ex post* excess demands. Then if the excess demand for the numeraire (money) is interpreted *ex post*, *i.e.* in Hansen's inflationary pressure sense, this may differ from the excess demand for money *ex ante*.

We must now make quite certain to understand what is involved. In equilibrium *ex ante* and *ex post* values coincide, and therefore Hansen's objections do not apply. It is therefore still perfectly valid to use the classical system to determine the equilibrium price ratios. No circularity is involved in this, nor is Hansen correct when he maintains that if in such a situation we strike out one of the excess demand equations — say for labour — there is no guarantee that in equilibrium there will not be excess demand for labour, for we can only strike out the excess demand equation if there is equilibrium everywhere. But we cannot use Walras' Law to investigate the dynamic stability or the laws of motion (other than equilibrium motions) of the system, unless it is maintained that price reactions depend on the *ex ante* rather than the *ex post* excess demands. But it is clear that the system may be in equilibrium *ex ante* and not *ex post*, *e.g.* when it is planned to supply more than is physically available. Clearly we cannot take prices to remain constant in this situation and the *ex post* excess demands become relevant in determining the course of prices. In short, Walras' Law cannot be relied on in a dynamic analysis and Hansen has done a great service in drawing attention to this.

But when it comes actually to carrying out the dynamic analysis, Hansen continues to use the assumption that all excess demands depend on relative prices only, while the excess demand for money depends on absolute prices (and is assumed homogeneous of degree one in these). This procedure is open to grave objections, which are at least as old as Mr. Hicks' *Value and Capital*. For the assumption that excess demands depend on relative prices only is equivalent to assuming that money only acts as a unit of account (13). For the price of money is constant (equal to unity) so that for instance rising prices must mean a fall in the real quantity of money. Now as long as no one holds any stocks of money, nor demands any to hold, this will make no difference, but then we shall be explaining an economy which has nothing to do with the world we live in, for our economy is a monetary economy. I cannot therefore accept Hansen's dynamic model, elegant though it is, as having any connection with the real world — not only because he assumes static expectations, but because he also assumes that the quantity of money has no influence on the situation.

Suppose for instance that instead of making all excess demand functions of relative prices only, we had inserted a term for the absolute quantity of money. Suppose further that there is excess demand everywhere. Suppose further that the rate of change in any price P_j is a function of the excess demand for j. If now a quasi-equilibrium is to exist, not only must all prices rise in the same proportion, but the quantity of money must rise in the same proportion as prices. But that is not all — each individual's stock of money must rise in the same proportion as prices. We must therefore assume that the monetary authority sees to it that each individual's cash balance increases by a certain amount each

(13) See the following discussion: Don Patinkin: « Relative Prices, Say's Law and the Demand for Money », *Econometrica*, Vol. 16, April 1948, and by the same author, « The Indeterminancy of Absolute Prices in Classical Economic Theory », *ibid.*, Vol. 17, January 1949, and « The Invalidity of Classical Monetary Theory », *ibid.*, Vol. 19, April 1951. Other participants in the discussion have been Braddock Hickman, Wassily Leontief and Cecil G. Phipp, all in *Econometrica*, Vol. 18, January 1950 and Brunner in *Econometrica*, Vol. 19, April 1951. Also J. Marschak: « The Rationale of the Demand for Money and "Money Illusion" », *Metroeconomica*, Vol. II, August 1950.

period. Unless this happens, even though the monetary authority increases the total stock of money in the same proportion as prices, the distribution of real cash balances will change and hence real excess demands will change and hence prices will cease increasing in the same proportion. In any realistic model, the old-fashioned concern with the supply of cash is a correct one, and it is a pity that throughout the book this is hardly mentioned.

IV

We may conclude with a few general remarks. Throughout his book, Hansen is concerned with government policies which will result in a zero monetary pressure of inflation at « full employment ». We have already questioned the relevance of this criterion. We must now also note that the requirement that there should be « full employment » adds an additional constraint to the system. This problem is not analysed by Hansen at all and yet it forms the major part of some of the most important recent contributions to the study of economic dynamics. If equilibrium is only possible at levels of output etc. above full employment, chronic inflationary pressure may result. In fact the great controversy between those favouring fiscal and those advocating physical measures by government must probably be decided on this issue (see section II above). Hansen is silent on these matters and yet the fact that a system in which the full employment constraint is operative may not have an equilibrium position is surely worthy of analysis.

One would also have liked to see a more careful analysis of what is meant by « full employment ». This is a question which can be answered best by what has come to be known as linear programming. For the full employment constraint must appear in our system as some sort of « maximum » transformation function and the aggregative procedure used by Hansen seems to me quite inadequate.

The frequent criticism expressed in this paper of Hansen's work stems from the belief that the primary problem of inflation is one of allocation, which must not be obscured by simple and unsophisticated aggregates. Hansen's book is frankly theoretical — in a work of this nature we are entitled to expect the most refined tools of analysis. But high-powered discussion of this sort we find in only a few pages. It was certainly a step forward to distinguish between at least two sectors, the goods and factors sectors; the discussion of the Swedish approach is lucid and highly instructive; the criticism of older theories is penetrating and just; yet the book does not add up to a theory of inflation, and certainly not to a theory of government policy. It can therefore be regarded as no more than a first rough, if stimulating, survey of the field.

STATISTICAL APPENDIX

ITALIAN BUDGET SUMMARY - ASSESSMENTS AND OBLIGATIONS

(milliards of lire)

Table A

Financial year beginning 1st July	Assessed revenue					Engaged expenditure					Surplus or deficit		
	Current revenue			Movement of capital	Total	Current expenditure			Movement of capital	Total	Current revenue & expenditure	Movement of capital	Total
	Recurrent	Non recurrent	Total			Recurrent	Non recurrent	Total					
1938-39	27	0.9	28	3	31	23	17	40	2.8	43	— 12	+ 0.2	— 11.8
1945-46	125	3	128	92	220	160	349	509	44	553	— 381	+ 48	— 333
1946-47	346	6	352	335	687	318	614	932	303	1,235	— 580	+ 31	— 549
1947-48	674	154	828	200	1,028	615	932	1,547	262	1,813	— 719	— 66	— 785
1948-49	919	96	1,015	45	1,060	796	723	1,519	98	1,617	— 504	— 53	— 557
1949-50	1,081	368	1,499	344	1,793	892	829	1,771	213	1,984	— 322	+ 131	— 191
1950-51	1,265	411	1,676	247	1,923	1,015	838	1,853	341	2,194	— 177	— 94	— 271
1951-52 (a)	1,458	262	1,720	337	2,057	1,170	1,036	2,206	274	2,480	— 486	+ 63	— 423
1952-53 (b)	1,457	247	1,704	40	1,744	1,327	805	2,132	109	2,141	— 428	— 69	— 497

(a) Provisional; (b) Estimates.

Source: Conto riassuntivo del Tesoro.

ITALIAN BUDGET SUMMARY - FINANCING OF CASH DEFICIT

(millions of lire)

Table B

	1947-48	1948-49	1949-50	1950-51 (c)	1951-52
Assessments and Obligations (a) - Deficit	— 784,764	— 556,705	— 191,768	— 270,707	— 423,000
Receipts and Payments (b) - Cash deficit	— 505,454	— 419,964	— 83,619	— 159,103	— 188,494
Financing of cash deficit:					
Treasury Bills	+ 203,709	+ 262,564	— 24,530	+ 98,024	+ 105,396
Advances of the Bank of Italy	+ 107,509	— 2,884	+ 19,077	— 19,077	—
Interest bearing current accounts: Cassa DD.PP. and insurance instit. (c)	+ 86,288	+ 223,443	+ 159,514	+ 142,216	+ 30,088
Interest bearing current accounts: Banking institutions	+ 20,726	— 39,449	— 10,176	— 751	— 13,591
Floating debt - Total	+ 418,232	+ 443,674	+ 143,885	+ 220,914	+ 121,893
Other Treasury Debits and Credits (d)	+ 41,301	— 67,773	+ 40,282	— 8,381	+ 139,188
Changes in cash position	+ 45,921	+ 44,063	— 100,548	— 53,430	— 72,587
GRAND TOTAL	+ 505,454	+ 419,964	+ 83,619	+ 159,103	+ 188,494

(a) Current revenue and expenditure and movements of capital;

(b) Receipts and payments on year account and arrears; current revenue and expenditure and movements of capital;

(c) For more than 90%, a/cs. with « Cassa Depositi e Prestiti » (Cassa DD.PP.) which collects the deposits of the Postal Savings Banks;

(d) Debits and credits with government's agencies and other public bodies;

(e) Rectifield.

Source: Conto riassuntivo del Tesoro.

ITALIAN DOMESTIC PUBLIC DEBT

(milliards of lire - Index Numbers, 1938=100)

Table C

End of period	Consolidated and others		Redeemable debt		Floating debt					Treasury notes	Total of domestic public debt	
					Treasury bills	Interest bearing current accounts	Advances by the Bank of Italy	Total				
	Amount	I. N.	Amount	I. N.				Amount	I. N.		Amount	I. N.
1938 - June	53	100	49	100	9	20	1	30	100	1.5	133.5	100
1947 - »	53	100	429	875	279	188	366	833	2,777	6.9	1,321.9	990
1948 - »	53	100	419	855	483	295	473	1,251	4,170	7.1	1,730.1	1,296
1949 - »	53	100	392	800	744	479	470	1,693	5,643	8.4	2,146.4	1,608
1950 - »	53	100	586	1,196	719	628	490	1,837	6,123	9.0	2,486.0	1,862
1951 - »	53	100	691	1,410	817	770	471	2,058	6,860	9.0	2,811.0	2,106
1952 - January	53	100	682	1,392	882	786	471	2,139	7.130	10.5	2,884.5	2,161
February	53	100	682	1,392	892	781	471	2,144	7,147	10.5	2,889.5	2,164
March	53	100	829	1,681	926	792	471	2,189	7,296	10.6	3,081.6	2,224
April	53	100	829	1,681	931	789	471	2,191	7,303	10.8	3,083.8	2,310
May	53	100	829	1,681	928	774	471	2,173	7,243	14.1	3,069.1	2,290
June (a)	53	100	829	1,681	923	786	471	2,180	7,267	15.0	3,077.0	2,305

(a) Provisional.

Source: Conto riassuntivo del Tesoro.

DEPOSITS AND CURRENT ACCOUNTS OF ITALIAN BANKS (a)

Table D

End of period	Time and Demand Deposits			Current accounts (b)			% of 4 to 1	Total		
	Amounts outstanding	Quarterly changes	Index Number	Amounts outstanding	Quarterly changes	Index Number		Amounts outstanding	Quarterly changes	Index Number
	1	2	3	4	5	6	7	8	9	10
1947 - December	528,516	—	100	485,373	—	100	91.8	1,013,889	—	100
1948 - December	805,497	+ 65,005	152.4	714,781	+ 50,161	147.4	88.7	1,520,278	+ 115,166	149.7
1949 - June	860,859	+ 15,683	162.8	811,444	+ 37,022	167.2	94.2	1,672,303	+ 52,705	164.9
December	1,015,937	+ 66,717	192.2	932,787	+ 76,226	192.1	91.8	1,948,724	+ 142,943	192.2
1950 - March	1,051,762	+ 35,825	209.1	947,449	+ 14,662	195.2	90.1	1,999,211	+ 50,487	197.2
June	1,059,031	+ 7,269	209.2	945,700	— 1,749	194.8	89.3	2,002,731	+ 5,520	197.7
September	1,112,499	+ 53,468	210.5	1,003,932	+ 58,232	206.8	90.2	2,116,431	+ 111,700	208.7
December	1,172,391	+ 59,892	221.8	1,062,515	+ 58,583	218.9	90.6	2,234,906	+ 118,475	220.4
1951 - March	1,179,784	+ 7,393	223.2	1,091,270	+ 28,755	224.8	92.4	2,271,054	+ 36,148	223.9
June	1,187,815	+ 8,031	224.7	1,090,487	— 783	224.6	91.8	2,278,302	+ 7,248	224.7
September	1,256,753	+ 68,938	237.7	1,179,351	+ 88,864	242.9	93.8	2,436,104	+ 157,802	240.2
December	1,364,093	+ 107,340	257.7	1,323,944	+ 144,593	271.8	93.8	2,688,037	+ 251,933	264.4
1952 - March	1,419,966	+ 55,873	268.7	1,355,400	+ 31,456	279.2	95.5	2,775,366	+ 87,329	273.7
June	1,454,922	+ 34,956	275.3	1,434,770	+ 39,370	296.0	98.6	2,889,692	+ 114,326	285.4

(a) The data refer to 365 banks (commercial and savings banks) which hold about 99% of the total deposits collected by all Italian banks.

(b) Interbank current accounts and valuta-accounts are excluded.

Source: *Bollettino* of the Bank of Italy.

DEPOSITS, CURRENT ACCOUNTS AND ASSETS OF ITALIAN BANKS (a)

(millions of lire)

Table E

Items	New Series (b)					
	31.12.49	31.12.50	31.3.51	30.6.51	31.12.51	31.3.52
Amounts outstanding						
Deposits and current accounts	1,948,720	2,234,906	2,271,054	2,278,302	2,686,037	2,776,883
Cash and sums available at sight	228,140	221,621	178,859	171,502	294,938	224,778
Fixed deposits with the Treasury and other Institutions	265,898	280,417	275,475	281,552	342,529	392,791
Government Securities (c)	427,761	545,755	576,213	570,945	645,494 (e)	703,467
Credits to clients (d)	1,473,679	1,772,344	1,824,318	1,889,950	2,107,101	2,159,509
Index Numbers: 31-12-1948 = 100						
Deposits and current accounts	128.2	147.0	149.4	149.9	176.8	182.6
Cash and sums available at sight	134.9	131.0	105.8	101.5	174.5	133.0
Fixed deposits with the Treasury and other Institutions	149.4	157.7	155.0	158.4	192.7	221.0
Government Securities (c)	103.2	131.7	139.1	137.8	155.8	174.0
Credits to clients (d)	130.5	156.9	161.6	167.4	186.6	191.2
% of deposits and current a/cs						
Cash and sums available at sight	11.7	9.9	7.9	7.5	10.9	8.0
Fixed deposits with the Treasury and other Institutions	13.6	12.5	12.1	12.4	12.7	14.1
Government Securities (c)	21.9	24.4	25.4	25.1	24.0	25.3
Credits to clients (d)	75.6	79.3	80.3	82.9	78.4	77.7

(a) The data refer to 365 banks (commercial and savings banks) which hold about 99% of the total deposits collected by all Italian banks.

(b) The Bank of Italy has revised the quarterly series on banking assets, beginning from December 1948. For back figures (old series) see, *Recent Banking Developments in Italy*, this Review, No. 11, October-December 1949, pp. 230-231.

(c) Treasury bills and other Government securities. Nominal value.

(d) Includes: bills on hand, rediscount at the Bank of Italy, contangoes, advances, current accounts, credits abroad, loans recoverable on salaries, credits on note of hand, mortgage loans, current accounts with sections for special credits, non-Government securities, participations.

Source: *Bollettino* of the Bank of Italy.

ADVANCES OF THE BANKING SYSTEM AND MEDIUM AND LONG-TERM CREDIT INSTITUTES
(amounts outstanding - end of period data) **Table F**

Categories of credit institutes	1938		1950		1951			
	millions of lire	%	milliards of lire	%	milliards of lire	%	Index numbers 1938=1	Index numbers 1950=100
Banking system (a)	35,027	65.0	1,670.7	71.0	1,980.4	70.1	56	118
Institutes for industrial credit (b)	9,767	17.8	471.4	19.7	613.2	21.7	63	130
Institutes for mortgage real estate credit	6,091	11.1	54.4	2.3	74.3	2.6	12	136
Institutes for agrarian credit:								
— Commodity pools	2,113	3.9	123.4	5.2	133.3	4.7	63	108
— Land improvement credit	1,260	2.2	18.9	0.8	23.9	0.8	19	126
Total	54,767	100	2,338.8	100	2,825.1	100	52	121

(a) Includes commercial and savings banks. The figures for « credits to clients » given for the banking system in this Table differ from the data reported on Table E owing to a different recording system (see on this matter, this Review No. 8, January-March 1949, Explanatory Notes, pag. 70).
(b) Includes the Institutes recorded in the Table H.

Source: Report of the Governor of the Bank of Italy for 1951.

ADVANCES OF THE BANKING SYSTEM, BY BUSINESS BRANCHES (a)
(amounts outstanding) **Table G**

Business branches	December 31, 1938		December 31, 1950		December 31, 1951			
	millions of lire	% of total	milliards of lire	% of total	milliards of lire	% of total	Index numbers 1938=1	Index numbers 1950=100
1. Personal (professional consumer, etc.)	4,139	11.81	120.6	7.20	136.5	6.8	32	113
2. Public Institutions (Institutions for specialized etc. activities excluded)	5,163	14.74	66.4	3.95	102.4	5.1	19	154
3. Banks, exchanges, fin. and insurance Cos.	3,398	9.70	83.5	5	88.5	4.4	26	105
4. Transport and communications	547	1.55	39.4	2.35	50.1	2.5	91	127
5. Electric Power, gas, water	319	0.91	11.6	0.70	31.3	1.5	98	269
6. Hotels, entertainments	286	0.81	19.3	1.15	22.7	1.1	71	117
7. Building and real estate, public works, landreclamation	4,211	12.02	116.7	7	132.0	6.6	31	113
8. Agriculture and agricultural equipment and supply trades	2,942	8.39	122.0	7.30	162.1	8.1	55	132
9. Cereals, foodstuffs, drink	4,315	12.40	368.6	22.05	410.3	20.7	95	111
10. Wood and related products	510	1.45	42.0	2.50	47.1	2.3	92	112
11. Non-metallic mineral ores	909	2.59	76.4	4.55	104.8	5.2	115	137
12. Steel, metal and engineering products	3,184	9.09	176.0	10.55	219.9	11.1	69	124
13. Chemical products	588	1.67	53.4	3.20	62.6	3.1	106	116
14. Paper and printing	351	1.00	21.6	1.30	28.3	1.4	80	131
15. Hide and skins	576	1.64	44.1	2.65	43.1	2.1	74	97
16. Textile products and clothing	2,238	6.38	204.9	12.25	222.2	11.2	99	108
17. Other trades and industries	172	0.49	26.1	1.55	32.5	1.6	188	124
18. Retail trade and miscellaneous services	1,179	3.36	77.4	4.65	84.1	4.2	71	108
Total	35,027	100	1,670.7	100	1,980.4	100	56	118
Index numbers: 1938=1	*1*		*47*		*56*			

(a) Commercial and savings banks.

Source: *Bollettino* of the Bank of Italy.

MEDIUM AND LONG TERM INDUSTRIAL CREDIT, BY SOURCE OF LOANS
(amounts outstanding)

Table H

Institutes	December 31, 1949		December 31, 1950		December 31, 1951			
							Index numbers	
	milliards of lire	% of total	milliards of lire	% of total	milliards of lire	% of total	1938 = 1	1950 = = 100
Istituto Mobiliare Italiano (Institute for medium and long term industrial credit) . .	51.4	18.72	78.8	16.60	95.6	15.29	80.2	121.3
Consorzio per sovvenzioni su valori industriali (Consortium for loans on industrial values)	19.8	7.21	18.5	3.92	20.1	3.92	11.6	108.6
Consorzio di credito per le opere pubbliche (Credit Consortium for public works) . .	16.0	5.83	68.3	14.54	70.3	11.16	11.7	102.9
Istituto di credito per le imprese di pubblica utilità (Public Utility Credit Institute) . .	38.1	13.87	44.0	9.39	55.6	9.07	70.9	126.4
Banca di credito finanziario (Mediobanca) (Bank for financial Credit)	7.0	2.55	12.2	2.62	17.0	2.77	—	139.3
Ente Finanziamenti Industriali (Institute for industrial financing)	—	—	1.1	0.23	2.7	0.44	—	245.5
Special Sections of the Banca Nazionale del Lavoro:								
— Section for hotel and tourist credit . .	0.4	0.15	1.0	0.21	1.9	0.31	—	190.0
— Section for credit to minor industries .	1.8	0.65	2.1	0.44	2.3	0.38	—	109.5
— Section for co-operative credit . . .	0.8	0.30	1.0	0.21	1.5	0.24	—	150.0
— Section for cinema credit	2.0	0.73	3.5	0.74	4.1	0.67	97.6	117.1
Banco di Napoli:								
— Section for industrial credit	7.9	2.87	13.6	2.88	17.7	2.85	—	130.1
Istituto per lo sviluppo economico del Mezzogiorno (Institute for the economic development of Southern Italy)	1.5	0.55	3.4	0.72	5.2	0.85	—	152.9
Banco di Sicilia:								
— Section for industrial credit	4.3	1.56	6.0	1.27	8.8	1.44	—	146.7
— Section for mineral credit	4.3	1.56	3.3	0.70	2.6	0.42	—	78.8
Banco di Sardegna:								
— Section for industrial credit	—	—	—	—	0.1	0.01	—	—
Istituto di credito fondiario delle Venezie:								
— Section for public utilities	—	—	—	—	1.1	0.18	—	—
Cassa per il credito all'artigianato (Institute for credit to handicraft)	0.8	0.30	1.3	0.28	1.7	0.28	—	130.8
Total	156.5	56.85	258.1	54.75	308.3	50.28	31.6	119.4
Industrial Financing with Italian Treasury or E.R.P. Funds:								
— Italian Government Loans (under the Act No. 449 of May 8, 1946) (a) . .	11.7	4.27	10.9	2.31	9.8	1.60	—	89.9
— Fondo Industrie Meccaniche (Engineering Industry Fund) (b)	43.6	15.88	46.7	9.91	53.8	8.77	—	115.2
— Grants to the ship-building industry (under the Act. No. 75 of March 3, 1949)	—	—	0.2	0.04	2.8	0.46	—	1,400.0
— Import Financing from the Sterling Area (c)	3.0	0.9	37.9	8.04	65.8	10.72	—	174.0
— Financing of iron industry (d) . . .	—	—	12.9	2.74	14.1	2.30	—	109.3
— Financing of industrial equipments on domestic market (e)	—	—	—	—	11.6	1.89	—	—
— E.R.P. Loans	6.3	2.29	51.0	10.82	102.2	16.67	—	200.4
— Export-Import Bank Credit (f) . . .	53.9	19.62	53.7	11.39	44.8	7.31	—	83.4
GRAND TOTAL	274.6	100.00	471.4	100.00	613.2	100.00	62.8	130.1
Index numbers: 1938=1	*28.2*		*48.3*		*62.8*			

(a) On May 8, 1946 an appropriation was authorized for making advances to industrial enterprises in an amount of 3 milliard lire, subsequently raised to 13, to be granted through the *Istituto Mobiliare Italiano*.

(b) On September 8, 1947 (D.L. No. 889) the Italian Government decided to appropriate 55 milliard lire for financing the Italian engineering industry. (See on this matter *Premises and Tasks of the Special Fund for financing the Italian Engineering Industry*, by R. Tremelloni, in this Review, No. 3, October 1947, pag. 169 ff.).

(c) On April 18, 1950 (Act No. 258) the Treasury was authorized to withdraw from the *Ufficio Italiano dei Cambi* (Italian Exchange Office) the sum of 50 million pounds sterling, in order to finance the imports of plants and equipments from the sterling area on the part of Italian industrial companies.

(d) On July 28, 1950 a withdrawal from the lira-fund was authorized, of 14,2 milliard lire, for financing the development and rationalization of the Italian Iron Industry.

(e) The above mentioned Act No. 258 authorized the Treasury to withdraw from the 1950-1951 Lira-Fund the sum of 10 milliard lire for financing the buying of industrial equipments on the Italian market, on the part of Italian industrial enterprises.

(f) As is known, in 1947 the Export-Import Bank granted to Italian industry a credit of about 100 million dollars.

Source: Report of the Governor of the Bank of Italy for 1951.

FUNDS RAISED IN THE CREDIT AND CAPITAL MARKET, IN 1951, BY SOURCE AND ECONOMIC BRANCHES

(annual increases - in milliards of lire)

Table I

Branches of economic activity	Banking system loans (a)	Loans of institutes for industrial credit	Loans of institutes for agrarian and real estate credit	Shares	Debentures	Total	%
1. Personal (professional, consumer, etc.)	15.9	—	—	—	—	15.9	2.8
2. Public Institutions (Institutions for specialized activities excluded)	35.9	3.7	—	—	—	39.6	6.9
3. Banks, exchanges, fin. and ins. Cos.	5.0	0.5	—	6.8	1.0	12.3	2.1
4. Transport and communications	10.6	17.0	—	5.2	0.1	32.9	5.7
5. Electric power, gas, water	19.6	47.4	—	10.2	—	77.2	13.5
6. Hotel, entertainments	3.3	1.6	—	0.3	—	5.2	0.9
7. Building and real estate, public works, land-reclamation	15.2	1.0	23.1	1.6	—	38.9	6.8
8. Agriculture and agricultural equipment and supply trades	40.0	—	4.8	...	—	44.8	7.8
9. Cereals, foodstuffs, drink	41.7	3.6	6.9	1.1	—	53.3	9.3
10. Wood and related products	5.1	0.5	—	0.4	—	6.0	1.0
11. Non-metallic mineral ores	28.4	13.7	—	3.8	0.1	46.0	8.0
12. Steel, metal and engineering products	43.8	38.5	—	19.3	0.2	101.8	17.8
13. Chemical products	9.0	2.3	—	16.0	4.0	31.3	5.5
14. Paper and printing	6.7	2.0	—	0.7	—	9.4	1.6
15. Hides and skins	1.0	0.4	—	...	0.1	0.5	0.1
16. Textile products and clothing	17.4	8.8	—	12.0	1.9	40.1	7.0
17. Other trades and industries	6.4	3.5	—	0.8	—	10.7	1.9
18. Retail trade and miscellaneous services	6.7	0.3	—	1.5	—	8.5	1.5
Total 1951	309.7	141.8	34.8	79.7	7.4	573.4	100
%	54.0	24.7	6.1	13.9	1.3	100.0	
Total 1950	292.5	172.4	26.0	65.5	32.7	589.1	
%	49.7	29.3	4.4	11.1	5.5	100.0	
Total 1949	323.2	90.8	30.0	89.6	107.6	641.2	
%	50.4	14.2	4.7	13.9	16.8	100.0	
Total 1948	321.6	116.2	9.6	86.1	24.4	557.9	
%	57.6	20.9	1.7	15.4	4.4	100.0	
Total 1938 (million lire)	2.192	1.974	0.340	1.697	1.32	5.235	
%	41.87	18.61	6.49	32.42	6.11	100.0	

(a) Commercial and savings banks.

Source: Report of the Governor of the Bank of Italy for 1951.

INTEREST RATES ON THE ITALIAN MONEY AND CAPITAL MARKET

(per cent per annum)

Table L

	1938 (a)	December 1950	December 1951
Bank rate	4.50	4.00	4.00
Commercial and savings banks: (b)			
— Sight deposits	1.50	0.50	0.50
— Ordinary time deposits	2.50 – 3.00	1.50 – 2.00	1.50 – 2.00
— Special time deposits	—	3.00	3.00
— Blank credits	5.625 – 6.25	6.00 – 7.50	6.00 – 7.50
— Advances	5.00 – 5.75	4.75 – 7.00	4.75 – 7.00
— Discounts	5.00 – 6.125	5.25 – 6.75	5.25 – 6.75
Postal savings bonds	5.00 – 6.00	4.50 – 5.25	4.50 – 5.25
Government securities:			
— Consolitated debt	5.40	5.09	5.35
— Redeemable debt	5.66	6.20	6.48
— Treasury Bills	5.29	6.09	6.21
Bonds issued by industrial credit Institutes	5.72	7.07	7.31
Bonds issued by mortgage credit Institutes	5.47	6.42	6.47
Bonds issued by industrial concerns	6.12	7.42	7.28
Shares	5.11	5.50	6.59

(a) Annuale average.

(b) For passive transactions are given the maximum rates, for active transactions the minimum rates, both as authorised by current regulations (the so-called « banking cartel »).

Source: Reports of the Bank of Italy for 1950 and 1951.

NOTE CIRCULATION, PRICES, WAGES AND SHARE QUOTATIONS IN ITALY

(Index Numbers, 1938=100)

Table M

Year or month	Note Circulation (a)		Wholesale prices (c)		Cost of Living (c)	Wage rates in industry (c)	Share quotations (b)	Fine gold	
	Amount (b) (milliards of lire)	Index	All commodities	Foodstuffs				Price of one gram (lire) (d)	Index
1945 December . .	389.8	1,732	. .	. .	2,764	. .	517	823	3,165
1947 December . .	795.0	3,533	5,526	6,196	4,929	5,105	1,206	827	3,180
1948 December . .	970.9	4,315	5,696	5,969	4,917	5,415	1,416.9	995	3,826
1949 December . .	1,058.2	4,703	4,747	4,954	4,753	5,791	1,511.3	957	3,680
1950 December . .	1,176.4	5,228	5,424	5,567	5,009	5,962	1,589.1	919	3,535
1951 March . . .	1,101.7	4,896	5,746	5,539	5,199	5,972	1,727.8	932	3,585
June	1,100.3	4,890	5,595	5,456	5,394	6,329	1,618.3	868	3,338
September . .	1,164.1	5,173	5,438	5,446	5,371	6,685	1,711.0	888	3,415
December . .	1,304.2	5,796	5,454	5,478	5,416	6,685	1,714.9	885	3,403
1952 March . . .	1,216.9	5,408	5,320	5,350	5,475	6,732	1,930.4	859	3,304
April . . .	1,209.0	5,373	5,255	5,293	5,501	6,732	1,826.4	819	3,150
May	1,216.0	5,404	5,168	5,221	5,522	6,732	1,809.9	800	3,077
June	1,220.0	5,422	5,133	5,194	5,559	7,055	1,872.3	795	3,058

(a) End of year or month. Includes: Bank of Italy notes, Treasury notes, and A-M-lire; (b) *Bollettino* of the Bank of Italy; (c) *Bollettino Mensile di Statistica* issued by the Central Institute of Statistics; (d) Business Statistics Centre of Florence.

PRICES AND YIELDS OF ITALIAN SECURITIES BY MAIN CATEGORIES

(annual or monthly averages)

Table N

Year or month	Government Securities								Share Securities	
	Bonds				Treasury Bills		Average			
	Consolidated		Redeemable							
	Price (index number '38=100)	Yield (per cent per annum)	Price (index number '38=100)	Yield (per cent per annum)	Price (index number '38=100)	Yield (per cent per annum)	Price (index number '38=100)	Yield (per cent per annum)	Price (index number '38=100)	Yield (per cent per annum)
1938 - a. av.	100.0	5.40	100.0	5.66	100.0	5.29	100.0	5.45	100.0	5.11
1947 - » »	94.4	5.72	98.1	5.77	71.9	7.36	84.8	6.43	2,248.5	0.59
1948 - » »	99.4	5.43	85.8	6.60	89.2	5.93	87.6	6.22	1,319.5	2.31
1949 - » »	105.9	5.10	96.1	5.89	94.6	5.59	96.0	5.68	1,567.7	3.97
1950 - » »	105.4	5.13	93.4	6.06	93.6	5.68	93.6	5.83	1,528.2	5.44
1951 - March	102.5	5.27	87.6	6.46	85.9	6.16	88.0	6.19	1,727.8	6.16
June	101.5	5.32	87.3	6.48	87.1	6.07	88.6	6.15	1,618.3	7.12
September	101.7	5.31	89.4	6.33	89.8	5.89	91.1	5.98	1,711.0	6.83
December	100.9	5.35	87.3	6.48	85.2	6.21	87.5	6.23	1,714.9	6.59
1952 - March	99.6	5.42	87.3	6.48	86.4	6.12	88.2	6.18	1,930.4	6.13
April	98.9	5.46	86.8	6.52	86.3	6.13	88.0	6.19	1,826.4	6.56
May	100.0	5.40	88.6	6.39	88.3	5.99	90.1	6.05	1,809.9	6.70
June	100.9	5.35	90.6	6.25	92.0	5.75	93.3	5.84	1,872.3	6.57

Source: *Bollettino* of the Bank of Italy.

WHOLESALE PRICES BY GROUPS OF COMMODITIES

(Index Numbers, 1938=100)

Table O

Period	All Commodities	Foodstuffs		Textiles	Hides, Skins and Footwear	Raw materials, metal and engineering products	Fuels and lubricants	Chemical raw materials and products	Lumber	Paper goods	Bricks, Lime and Cement	Glass
		Vegetable	Animal									
1949 - a. av.	5,169	4,830	6,481	5,939	4,609	5,402	3,945	5,603	5,663	4,726	6,108	4,903
1950 - » »	4,905	4,746	6,401	6,015	4,191	5,228	3,784	5,302	5,677	4,778	6,106	4,928
1951 - » »	5,581	4,821	7,289	7,621	5,213	6,689	4,666	6,008	7,250	8,318	6,603	4,878
1951 - January	5,652	4,979	7,392	7,941	6,190	6,355	4,327	5,858	6,029	7,299	6,100	4,928
February	5,738	5,015	7,046	8,141	6,333	6,645	4,509	6,076	6,479	8,408	6,231	4,928
March	5,724	4,952	6,968	8,279	6,127	6,636	4,727	6,206	6,879	8,829	6,277	4,886
April	5,697	4,980	6,819	8,146	5,656	6,689	4,735	6,219	7,000	8,796	6,373	4,886
May	5,677	4,979	7,012	7,830	4,950	6,696	4,722	6,164	7,042	8,693	6,560	4,886
June	5,595	4,842	6,970	6,995	4,619	6,708	4,745	6,132	7,272	8,610	6,680	4,886
1952 - January	5,415	4,699	7,184	6,778	4,753	6,957	4,610	6,006	8,356	7,651	7,039	4,707
February	5,380	4,720	7,126	6,778	4,616	7,022	4,644	5,986	8,543	7,486	7,141	4,707
March	5,323	4,709	6,969	6,604	4,406	7,060	4,597	5,866	8,599	7,340	7,150	4,707
April	5,255	4,709	6,725	6,429	4,208	6,978	4,524	5,800	8,575	6,950	7,213	4,707
May	5,168	4,683	6,524	6,283	3,909	6,853	4,473	5,741	8,531	6,742	7,242	4,707
June	5,127	4,646	6,295	6,242	3,945	6,777	4,388	5,720	8,419	6,168	7,321	4,707

Source: Bollettino Mensile di Statistica.

NATIONAL INDEX OF LIVING COST

(1938 = 100)

Table P

Year or month	All Items	Foodstuffs	Clothing	Heating and lighting	Housing	Miscellaneous
1948 - a. av.	4,844	6,083	6,004	2,634	377	4,318
1949 - » »	4,915	6,069	5,956	3,255	543	4,469
1950 - » »	4,849	5,877	5,742	3,480	730	4,610
1951 - » »	5,320	6,279	6,975	3,746	1,232	5,248
1951 - March	5,199	6,105	7,065	3,665	1,258	5,070
April	5,317	6,280	7,129	3,673	1,267	5,092
May	5,323	6,297	7,144	3,671	1,265	5,097
June	5,394	6,412	7,108	3,687	1,260	5,108
1952 - March	5,475	6,419	6,596	3,997	1,539	5,532
April	5,501	6,471	6,524	4,000	1,548	5,501
May	5,522	6,508	6,445	3,990	1,565	5,497
June	5,559	6,566	6,410	3,991	1,576	5,436

Source: *Bollettino Mensile di Statistica.*

WAGES AND SALARIES IN ITALY

(gross retributions - inclusive of family allowances)
(Index Numbers, 1938 = 100)

Table Q

Categories	1950	1951	1951			1952		
	a. av.	a. av.	april	may	june	april	may	june
Industry:								
Specialized workers	4,956	5,616	5,436	5,436	5,590	5,916	5,916	6,168
Skilled workers	5,607	6,182	5,983	5,983	6,126	6,507	6,507	6,812
Ordinary workers and semi-skilled labourers	6,009	6,544	6,323	6,323	6,482	6,895	6,895	7,232
Labourers	6,513	7,013	6,742	6,742	6,940	7,415	7,415	7,796
General index of Industry	5,825	6,386	6,165	6,165	6,329	6,732	6,732	7,055
Agriculture	6,942 (d)	7,135	7,009	7,045	7,113	7,416	6,765	6,789
Government Civil Employees:								
Group A (a)	3,191	3,373	3,373	3,373	3,373	3,373	3,962	3,962
Group B (b)	3,224	3,424	3,424	3,424	3,424	3,424	3,927	3,927
Group C (c)	4,131	4,223	4,223	4,223	4,223	4,223	4,693	4,693
Subordinate staff	4,845	4,928	4,928	4,928	4,928	4,928	5,297	5,297
General Index of Government Civil Employees	3,798	3,936	3,936	3,936	3,936	3,936	4,425	4,425

(a) Administrative grade; (b) Executive grade; (c) Clerical grade.
Source: *Bollettino Mensile di Statistica.*

ITALIAN INDUSTRIAL PRODUCTION INDEXES (a)

(unadjusted, 1938 = 100)

Table R

Year or month	General Index	Mining	Manufactures										Electric Power
			Total	Food	Textiles	Lumber	Paper	Metallurgy	Engineering	Non metallic ores	Chemicals	Rubber	
1948 a. av.	99	82	93	93	96	54	73	87	104	90	93	103	148
1948 » »	105	90	101	111	99	58	91	85	115	96	105	115	136
1949 » »	121	101	116	134	104	59	106	105	122	119	127	132	160
1950 » »	137	119	131	139	109	62	114	135	130	128	171	152	186
1951 March	141	109	136	142	123	63	124	128	138	130	171	172	183
April	138	109	133	133	119	63	117	136	133	130	169	164	180
May	143	109	137	134	116	62	118	151	136	135	180	171	196
June	139	108	133	133	111	65	111	144	134	132	173	160	193
1952 March	138	139	132	144	104	68	111	143	134	138	169	134	183
April	137	134	131	140	100	67	105	147	134	143	169	122	183
May	147	139	140	147	101	70	116	161	154	156	176	144	205
June	139	132	131	139	97	62	106	149	143	133	166	131	200

(a) On the problem of index numbers on Italian industrial production, see this Review, No. 16, January-March 1951: *A Note on the Index Numbers of Italian Industrial Production*, by E. D'Elia, pag. 34: and *National Income, Consumption and Investments in Italy*, ibid., pag. 3.
Source: *Bollettino Mensile di Statistica.*

ITALY'S FOREIGN TRADE IN 1938 AND 1946-51 **Table S**

Year	Imports			Exports			Percent of exports to imports	Deficit		
	milliards of current lire	1938 lire (a)		milliards of current lire	1938 lire (a)			milliards of current lire	1938 lire (a)	
		milliards	Index number		milliards	Index number			milliards	Index number
1938	11.26	11.26	100	10.5	10.5	100	93.1	— 0.76	— 0.76	100
1946	91.5	3.2	27	64.6	2.2	21	70.6	— 26.9	— 1.—	129
1947	930.6	18.–	159	339.2	6.6	63	36.5	— 591.4	— 11.4	1,493
1948	822.8	15.4	135	570.6	10.5	100	69.3	— 252.2	— 4.9	636
1949	857.–	16.5	151	634.6	12.3	118	74.2	— 222.4	— 4.2	558
1950	900.3	18.8	166	746.9	15.3	146	83.0	— 153.4	— 3.5	454
1951	1,323.6	23.7	210	1,017.9	18.2	173	76.9	— 305.7	— 5.5	714

(a) Current lire have been converted in 1938 lire on the basis of wholesale price index calculated by the Central Institute of Statistics.

Source of absolute figures: « *Statistica del Commercio con l'Estero* » by the Central Institute of Statistics.

ITALY'S IMPORTS AND EXPORTS IN 1951 AND 1952: FIRST SIX MONTHS
(milliards of lire) **Table T**

Period	1951				1952			
	Imports	Exports	Surplus (+) or deficit (—)	% of exports to imports	Imports	Exports	Surplus (+) or deficit (—)	% of exports to imports
January	96.6	75.5	— 21.1	78.1	123.3	84.6	— 38.7	68.6
February	94.0	71.5	— 22.5	76.0	113.8	76.9	— 36.9	67.5
March	100.3	82.5	— 17.8	82.0	130.–	75.3	— 54.7	57.9
April	115.7	79.8	— 35.9	68.9	125.6	68.8	— 56.8	54.8
May	122.4	81.9	— 40.5	66.9	130.–	71.2	— 58.8	54.7
June	123.4	86.2	— 37.2	69.9	118.9	65.3	— 53.6	54.8
January-June	652.4	477.4	— 175.0	73.2	741.1	442.1	— 299.5	59.6

Source: « *Statistica del Commercio con l'Estero* », by the Central Institute of Statistics.

ITALY'S BALANCE OF PAYMENTS IN 1951
(millions of dollars) **Table U**

Items	Free Currencies		E. P. U. Currencies		Other currencies	Total
	dollars	other currencies	sterlings	other currencies		
Credits:						
Exports	227.0	6.1	620.4	583.0	157.4	1,593.9
Freights	38.5	0,2	41.3	37.1	15.1	132.2
Tourism	12.4	2.7	28.8	44.9	0.4	89.2
Remittances	16.4	4.8	12.1	25.8	10.2	69.3
Other services	70.4	4.8	36.5	35.1	14.6	161.4
Total	364.7	18.6	739.1	725.9	197.7	2,046.0
Debits:						
Imports	651.0	3.9	592.5	592.8	192.2	2,032.4
Tourism	2.5	0.5	1.8	8.9	0.2	13.9
Other services	61.1	1.0	17.2	49.7	24.8	153.8
Total	714.6	5.4	611.5	651.4	217.2	2,200.1
Balance:						
Goods	— 424.0	2.2	27.9	— 9.8	— 34.8	— 438.5
Services	74.1	11.0	99.7	84.3	15.3	284.4
Total	— 349.9	13.2	127.6	74.5	— 19.5	— 154.1
Sundry Items	23.3	1.1	— 8.3		12.3	28.4
General Balance	— 326.6	14.3	193.8		— 7.2	— 125.7

Source: Report of the Bank of Italy for 1951.

BANCA NAZIONALE DEL LAVORO

BRANCHES IN ITALY

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